Australia

Infrastructure Report

Quarterly Report: Forecasts to 2034

Contents

Key View

Key View: *Australia's construction industry is set to experience limited growth in FY2024/25 and is forecast to strengthen from FY2025/26 onwards. We expect FY2025/26 growth to be supported by rebounding non-residential construction activity, which is forecast to grow by 2.6% y-o-y, up from an estimated 2.0% contraction in 2025. Over the long term, a strong project pipeline among all sectors points to a robust growth outlook, with building construction forecast to outperform, growing by an annual average of 3.6% from FY2025/26 to FY2033/34.*

Key Forecasts And Latest Updates

- This quarter, we revised down our construction growth estimate for FY2024/25 (2025) from 1.1% to 0.9%, due to weakness within non-residential building and transport construction across the first three quarters of the fiscal year. That said, we expect the construction industry to rebound in FY2025/26 (2026) amid increased availability of financing and improving economic fundamentals, with the industry to see growth of 2.9% for the year.
- Over the medium term, we expect Australian construction industry growth to accelerate, reaching 3.4% in FY2026/27 (2027) and averaging 3.3% between FY2025/26 and FY2028/29.
- Over the long term, we expect growth to moderate slightly and average 3.0% throughout our 10-year forecast period over 2025-2034.
- Investment in the energy transition will remain robust over the short-to-medium term, although we note the potential for future policy shifts that could affect continued government support, particularly with the country's next parliamentary elections to be held no later than May 2028.

Infrastructure - Construction Industry Forecasts (Australia 2025-2034)

Indicator	2025f	2026f	2027f	2028f	2029f	2030f	2031f	2032f	2033f	2034f
Construction industry value, AUDbn	193.2	203.4	215.2	227.6	240.5	254.2	268.6	283.7	299.5	316.1
Construction industry value, real growth, % y-o-y	1.1	2.9	3.4	3.4	3.3	3.3	3.3	3.2	3.2	3.2
Construction industry value, % of GDP	6.9	6.9	7.0	7.0	7.1	7.1	7.1	7.1	7.2	7.2

f = BMI forecast. Source: National sources, BMI

Risk/Reward Index

- Australia remains one of the most attractive markets globally for infrastructure investment, as it outperforms regional and global averages in our Infrastructure Risk/Reward Index, underscoring its status as a low-risk, high-reward market. This is still the case despite near-term uncertainties in the economic outlook from US tariffs and global trade tensions, as well as from the recent political elections.

Infrastructure Risk/Reward Index (Australia 2025)

Geography	Risk/Reward Index	Rewards	Industry Rewards	Country Rewards	Risks	Industry Risks	Country Risks
Australia	27.2	37.1	36.9	37.5	12.4	13.2	11.7

Note: Scores out of 100; lower score = more attractive market. Source: BMI Infrastructure Risk/Reward Index

SWOT

Infrastructure SWOT

Strengths	Weaknesses
• Large coal reserves provide a cheap source of fuel for power generation. • A fertile business environment exists with a well-developed project finance environment. • Large landmass and arid climate creates a significant scope for the expansion and improvement of transport and utilities infrastructure.	• A notable failure rate for toll road projects exists, due to over-estimated traffic projections. • Policy inertia has at times been a challenge to policymaking, with bills frequently delayed owing to political party opposition. • High labour costs and strong union power affecting project viability.
Opportunities	**Threats**
• The government prioritisation of road investment to address urban congestion concerns in major Australian cities. • The government's decarbonisation agenda will pave the way for investment into low carbon infrastructure, such as renewable energy, battery storage, electric vehicle charging and hydrogren production facilities. • Multiple major infrastructure investment plans including the 10-year Infrastructure Investment Program, Queensland's AUD18.0bn infrastructure plan and New South Wales's AUD50.2bn transport plan.	• Mining companies (a key source of project opportunities) could seek opportunities in other markets, such as in Africa. • A slowdown in global demand for energy commodities.

Industry Forecast

Construction And Infrastructure Forecast Scenario

Key View: *Australia's construction industry is set to see limited growth in FY2024/25 and strengthen thereafter, with more robust growth from FY2025/26 onwards. We expect growth in 2026 to be supported by rebounding non-residential construction activity, forecast at 2.6% y-o-y and up from an estimated 2.0% contraction in 2025. Over the long term, a strong project pipeline among all sectors points to a robust growth outlook, with specific outperformance expected in building construction, which is expected to grow by an annual average of 3.6% from FY25/26 to FY2033/34.*

Latest Developments

- This quarter, we revised down our construction growth estimate for FY2024/25 (2025) from 1.1% to 0.9%, due to weakness within non-residential building and transport construction across the first three quarters of the fiscal year. That said, we expect the construction industry to rebound in FY2025/26 (2026) amid the increased availability of financing and improving economic fundamentals, with the industry to see growth of 2.9% for the year.
- Over the medium term, we expect Australian construction industry growth to accelerate, reaching 3.4% in FY2026/27 (2027) and averaging 3.3% between FY25/26 and FY2028/29.
- Over the long term, we expect growth to moderate slightly and average 3.0% throughout our 10-year forecast period (2025-2034).
- Investment in the energy transition will remain robust over the short-to-medium term, although we note the potential for future policy shifts that could affect continued government support, particularly with the country's next parliamentary elections to be held no later than May 2028.

Construction And Infrastructure Industry Data (Australia 2025-2034)

Indicator	2025f	2026f	2027f	2028f	2029f	2030f	2031f	2032f	2033f	2034f
Construction industry value, AUDbn	194.7	205.0	216.8	229.4	242.4	256.1	270.7	285.9	301.8	318.5
Construction industry value, real growth, % y-o-y	0.9	2.9	3.4	3.4	3.3	3.3	3.3	3.2	3.2	3.2
Construction industry value, % of GDP	7.0	7.0	7.1	7.1	7.2	7.2	7.2	7.3	7.3	7.3
Infrastructure industry value, AUDbn	60.21	63.58	66.86	69.92	73.11	76.53	80.13	83.97	87.94	92.10
Infrastructure industry value real growth, % y-o-y	2.3	3.2	2.8	2.2	2.2	2.3	2.3	2.4	2.4	2.4

f = BMI forecast. Source: National sources, BMI

Structural Trends

Near-Term Headwinds, But Recovery In Sight

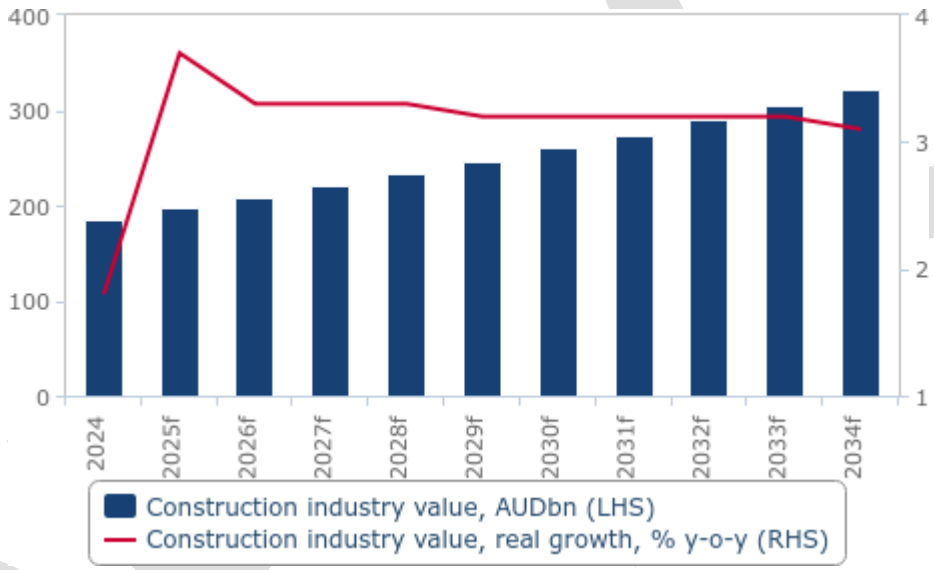
Australia's construction industry is set to see limited growth in 2025 and strengthen thereafter, with more robust growth from FY25/26 onwards. Rising unemployment, diminished household savings and tight monetary policy conditions all contributed to a deceleration in construction sector activity in FY2023/24, with the industry growing in real terms by 1.7%, down from real growth of 2.7% in FY2022/23. We anticipate that construction growth will remain slow in FY24/25 to 0.9%, as the industry grew by 0.4% y-o-y over the first three quarters of the fiscal year, gaining momentum in Q3 with 1.7% y-o-y growth. In seasonally adjusted terms, the industry year-over-year growth was slightly higher, at 0.5%. However, we anticipate a strengthening of growth from FY25/26, with the industry to expand by 2.9% as financing conditions improve and economic activity picks up. We anticipate that non-infrastructure construction activity in particular will support the expansion of the industry, with the segment to continue to see

robust growth, expanding by 2.8% in real terms in FY25/26, following annual average growth of 3.2% from FY25/26 to FY33/34.

Easing monetary policy will support the recovery of the industry, reducing financing costs, boosting investment and supporting housing demand. In August 2025, the RBA cut its policy rate to 3.65% as inflation remained within the 2.0-3.0% target band and unemployment ticked up once to 4.3%, signalling softness in labour demand. Our Country Risk team anticipates one additional 25bps cut to the policy rate through the end of 2025, with the rate to end the year at 3.35%. The Country risk team expects accommodative monetary conditions to support private consumption and business investment in FY25/26, providing a more supportive backdrop for the construction industry.

Solid Growth Ahead For Construction Sector

Australia - Construction Industry Value Forecast (2024-2034)



f = BMI forecast. Source: Australian Bureau of Statistics, BMI

Over the medium term, we expect Australia to offer a strong investment environment for construction projects, as we anticipate policy continuity through to 2028, moderating growth and policy rates, and a rebound in global investment demand. As a result, we expect construction activity growth to peak in FY26/27 and FY27/28, then ease slightly towards the end of the electoral cycle.

Over 2025-2034, our Country Risk team estimates that Australia will average real GDP growth of 2.5% and fixed capital formation growth of 6.2%. This supports our long-term outlook on construction growth as the market maintains a strong fiscal position, high demand for private investment and a well-established PPP framework. We highlight a strong project pipeline, spanning residential and non-residential buildings, transport infrastructure, and energy and utilities, which will drive robust growth across the construction market over the coming decade. Areas of upside risk and investment bright spots include the development of high-speed rail, hydrogen facilities, low carbon infrastructure and residential building.

Pro-Climate Policy Paving The Way For Investment

In May 2025, the Australian Labor Party retained its majority in the Australian general election. In the Senate, ALP's increased representation means that it can reach the 39 votes needed to pass legislation with only the Greens' support, while also holding a stronger majority in the House of Representatives. We anticipate that this alignment will accelerate climate and energy measures, driving significant investment into related infrastructure projects and creating upside for Australia's infrastructure sector in the short-to-medium term.

The Labor Party's campaign included a 2030 target to reduce greenhouse gas emissions by 43.0% from 2005 levels, while seeking an additional 26GW of renewables capacity by 2030 and for renewables to account for 82.0% of grid-connected generation. The current government estimates show that the country is on track to reach a level of 42.7% carbon reduction, compared to its target of 43.0%. While we maintain some caution in response to the administration's ambitious targets, we note that the new senate composition and pro-investment policies support this transition.

Transmission grid and battery storage remain pertinent areas for investment. Apart from unestablished supportive mechanisms for renewables, slow grid developments remain a hurdle for stronger renewables growth. In order to facilitate a rapid expansion of renewables, the development of the national grid has to accelerate to avoid stranded solar and wind power projects. Additionally, the need for investment in Battery Energy Storage Systems (BESS) becomes more important as a larger proportion of electricity generation comes from renewable sources, which often makes it hard to match up periods of increased demand with the requisite supply. Acknowledging these challenges, the Labor Party is planning to address it through the 'Rewiring the Nation' programme, which includes an AUD20.0bn investment to rebuild and modernise the grid, and the AUD2.3bn Cheaper Home Battery Programme that aims to make household BESS installation more affordable.

Transport Infrastructure

Key View: *Australia's transport infrastructure sector is set for significant expansion over the next decade, with industry value to increase by an annual average of 2.4% between 2025 and 2034. Robust growth is expected across all sectors. The sector benefits from both public and private spending, alongside a well-established PPP framework, governed by the National PPP Policy Framework, which will continue to play a key role in developing high-value projects in the transport sector.*

Latest Developments

- In July 2025, contracts were awarded for the design and construction of two new interchanges at Altone Road and Drumpellier Drive/Daviot Road on Reid Highway in Perth's north-eastern suburbs. The project involves major upgrades along this strategic east-west route. As part of the work, two sets of traffic signals will be replaced with grade-separated interchanges.
- Also in July 2025, a contract was awarded to design and construct the upgrade connections between the M5 motorway, Moorebank Avenue and the Hume highway, including a new three-lane toll-free bridge over the Georges River and rail lines, in Sydney, Australia. The project will remove the M5 weave section to enhance safety and traffic flow, add a new underpass linking the westbound M5 to the Hume highway and upgrade intersections. Both Federal and New South Wales governments are jointly funding the USD380.0mn project.
- In July 2025, the New South Wales (NSW) government announced a USD2.2bn investment plan to upgrade three major arterial roads, namely Elizabeth Drive, Mamre Road Stage Two and Garfield Road East, in a bid to support the rapid traffic growth from the upcoming Western Sydney International Airport in Australia. The projects aim to deliver safer, faster travel and improved access to employment zones. Funding is split equally between the state and federal governments, with the industry invited to participate in design and construction. Construction is set to start after public consultations later in 2025.
- In July 2025, a design contract for the AUD76.0mn (USD49.0mn) Mandalong Road upgrade project was awarded to GHD Pty Ltd. The design includes replacing the Wyee Road and Freemans Drive roundabout with traffic lights, adding a shared path and installing new bus stops. The project is expected to take 12 to 18 months, with completion anticipated between H2 2026 and early 2027.
- In June 2025, construction started on priority upgrades on Bruce Highway as part of a USD9.0bn Federal and State-funded safety programme in Australia. The early works package, targeting 16 high-risk areas north of Gympie, includes road widening, intersection improvements, rest areas and pavement strengthening.
- Also in June 2025, the Queensland and Federal governments committed an additional USD600.0mn to the USD5.7bn Logan and Gold Coast Faster Rail project. The project will double tracks between Kuraby and Beenleigh, remove five level crossings and upgrade stations.

Transport Infrastructure Industry Data (Australia 2024-2034)

Indicator	2024	2025f	2026f	2027f	2028f	2029f	2030f	2031f	2032f	2033f	2034f
Transport infrastructure industry value real growth, % y-o-y	-2.0	-5.6	3.7	4.2	3.1	2.9	3.0	3.1	3.2	3.2	3.1
Roads and bridges infrastructure industry value real growth, % y-o-y	-1.8	-7.5	4.2	3.8	3.0	2.7	3.1	3.3	3.4	3.3	3.2
Railways infrastructure industry value real growth, % y-o-Y	0.8	-4.9	4.0	6.5	4.0	3.5	3.0	3.0	3.0	3.0	3.1
Airports infrastructure industry value real growth, % y-o-y	-2.0	-5.6	3.1	4.5	4.0	3.5	3.3	3.2	3.3	3.3	3.4
Ports, harbours and waterways infrastructure industry value, real growth, % y-o-y	-28.0	31.8	-5.0	-10.0	-5.0	1.0	-1.0	0.5	1.0	1.0	1.0

f = BMI forecast. Source: National sources, BMI

Structural Trends

Australia's transport infrastructure sector is set for significant expansion over the next decade. Over the near term, we anticipate that the industry will see a strengthening from FY2025/26 (2026) onwards following a projected contraction of 5.6% in FY2024/25 (2025). We forecast that transport infrastructure construction will grow in real terms by 3.7% and 4.2% respectively in FY25/26 and FY26/27, with annual average growth of 2.4% between 2025 and 2034. This will be supported by robust public spending, with the government supporting infrastructure development across multiple transport segments. The sector is also set to benefit from substantial private investment, driven by both domestic and international stakeholders, enhancing the pace and scale of project delivery. Australia's well-established public-private partnership (PPP) framework, governed by the National PPP Policy Framework, will continue to play a key role in developing high-value projects in the transport sector.

Roads

The government's rolling 10-year Infrastructure Investment Programme (IIP) will support the long-term growth of Australia's road infrastructure sub-sector. Based on a breakdown provided in the budget, a total of AUD41.0bn is allocated to expenditure related to road infrastructure over four fiscal years, beginning with FY25/26, primarily consisting of grants provided under the IIP. A deeper analysis of the budget reveals that the road investment component of the IIP alone is AUD34.9bn, with New South Wales receiving the largest part of the budget, at AUD9.4bn. The allocated budget will be used to fund nationally significant projects that will improve the efficiency and safety of the country's road network. This includes road construction projects, network maintenance, transport development, innovation projects and grants to land transport research bodies. Other road-related initiatives and programmes included in the IIP are as follows:

- **Black Spot Projects:** The goal of the programme is to identify and fix hazardous road locations around the country. A total of AUD600.0mn has been allocated to this programme over FY25/26-FY28/29.
- **Roads To Recovery:** This initiative is designed to support the maintenance of Australia's local road infrastructure. Implementation is carried out at state, territory and local levels, with a budget of AUD3.7bn allocated for FY25/26-FY28/29.
- **Safer Local Roads And Infrastructure Plan:** This initiative consolidates the previous Bridges Renewal and Heavy Vehicle Safety and Productivity programmes. The remit of the plan is to address evolving priorities in road infrastructure. Implementation has been expanded to all eight states and territories from this fiscal year, with a budget of AUD990.0mn from FY25/26-FY28/29.
- **Northern Australia Roads:** This is part of the greater Developing Northern Australia initiative, which aims to develop better road infrastructure to ensure connectivity in Queensland, Northern Territory and Western Australia - the three largest territories in mainland Australia. A total of AUD264.3nm has been allocated in the four-year budget, with most of the expenditure budgeted in FY25/26 and FY26/27.
- **Local Roads And Community Infrastructure:** This project aims to provide local governments with grants to deliver high-priority local road and community infrastructure projects. This year marks the project's fourth and final stage. The initiative will be closed on June 30 2026 (the end of FY25/26). The closure of this project forms part of a broader government initiative to consolidate, promote integration, and ensure a more strategic and sustainable approach to infrastructure investment. The budget for this year is AUD265.1mn.

Part of the government's ambitious plans to improve the country's land infrastructure is to attract private capital to co-fund projects, primarily through the use of PPPs. One of the largest PPP projects is the AUD16.8bn (USD10.8bn) WestConnex Motorway Project in Sydney. The project was completed in 2023, despite strong opposition when it was first proposed by authorities, due to concerns over high costs and the potential environmental impact. Another road megaproject, the AUD16.0bn (USD10.3bn) North-East Link Project in Melbourne, is now in the early works stage and scheduled for a 2028 completion.

A characteristic of such large PPP toll road projects is the large exposure to demand risk, which will materialise in the event of a shortfall of actual demand vis-à-vis forecast demand. It will take some time for travel patterns to change and users to accept the payment of a high toll, which translates into a short-term shortfall in demand which will impact the cash flow of such projects. For the WestConnex Project, a maximum distance-based toll of AUD10.38 will be charged in 2025 for the usage of the new M4, part of

the WestConnex, and usage of the new M4 tunnels from Homebush to Haberfield in Sydney will costAUD5.62 for 2025, with a further 4.0% increase expected in 2026. These costs may add to the high sum of toll costs that motorists in Sydney are already incurring, and we believe that the cost will be a deterrence for some users.

Rail

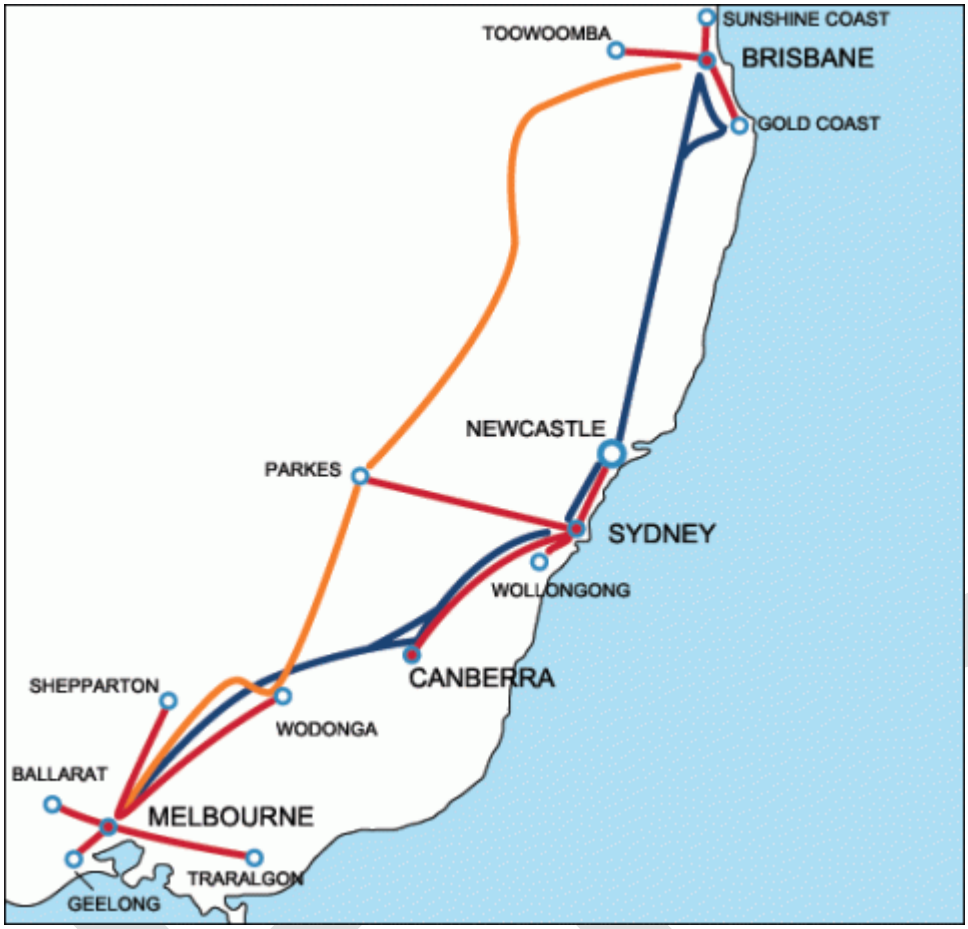
Growth of the rail sub-sector will be driven by the Rail Investment Component of the IIP, with a budget of AUD12.7bn (USD8.3bn) over the coming four-year window, until FY28/29. Most of the investment is expected in the east coast with 90.7% of the budget allocated within Victoria, New South Wales and Queensland, through initiatives such as the expansion metro systems in major Australian cities and other projects such as the USD9.2bn Melbourne Airport Rail Link, the Brisbane Faster Rail project and the USD7.6bn Inland Freight Rail Project.

In August 2021, the Australian state of Victoria released a business and investment case for the 90km Suburban Rail Loop (SRL) PPP project. The investment case focuses on the first two sections - the eastern section from Cheltenham to Box Hill and the north-east stretch from Box Hill to Melbourne Airport - which will cost up to AUD50.5bn (USD32.5bn). The eastern section alone would cost between AUD30.0bn (USD19.3bn) and AUD34.5bn (USD22.2bn) over 14 years. Early works for the twin 26km tunnels in the east and south-east are due to be completed by 2035. Works on the north-eastern leg are slated to begin in 2043 and be completed in 2053. In a positive development for the project, it was announced in November 2024 that the global consortium Terra Verde was awarded a AUD1.7bn (USD1.1bn) tunnelling contract for the AUD34.5bn (USD22.5bn) eastern section of the rail line. The deal is to build 10km twin tunnels between Glen Waverley and Box Hill, with another consortium already signing a AUD3.6bn (USD2.4bn) deal to tunnel the rest of the 26km stretch from Cheltenham. Construction is currently underway, and tunnelling is expected to begin in 2026.

We note upside risk to our outlook for Australia's rail sub-sector driven by proposals to construct a high-speed rail network in the country, including a link between Melbourne to Sydney with an estimated cost of USD150.0bn. Although this line would slash travel times between large Australian cities along the east coast, its high price tag has been a point of contention since it was first mooted more than a decade ago, and proposals have been shelved and revived multiple times by different political administrations. Since 2024, a business case has been undertaken to determine some technical considerations for a connected project linking Newcastle to Sydney. This includes taking rock samples to deduce the most effective method for tunneling under the Hawkesbury River. The Australian government has committed AUD500.0mn for planning and early works, although no construction is currently under way. We have yet to factor the value of these projects into our forecasts, and we will wait for more tangible developments to do so.

East Australia's Planned Rail Network

Australia - Map Of Planned Rail Network In Queensland, New South Wales & Victoria



Note: Red = faster rail plan. Blue = high-speed rail. Orange = inland freight rail. Source: News sources, BMI

Airports

Australia's airport infrastructure sector faced significant headwinds during the Covid-19 pandemic, with stringent travel restrictions and reduced passenger volumes severely impacting revenues and infrastructure demand. The largest portion of airport revenues in Australia is derived from aeronautical fees charged on a passenger basis, which make airport operators exposed to demand risk. Additionally, airports in the market usually have high fixed costs, which has made some airports close terminals, causing operational disruptions. Highlighting this, according to the Australian Competition & Consumer Commission, the average return of aeronautical assets of the four most important airports in the country (Sydney, Melbourne, Brisbane and Perth) dropped to 3.9% from 9.0% between July 2019 and July 2020.

Tourism To Sustain Growth In Transport Infrastructure

Australia - Tourist Arrival & International Tourism Receipts (2022-2029)

e/f = BMI estimate/forecast. Source: National sources, BMI

Despite efforts to diversify revenue generation, we highlight that many of the country's airports remain heavily reliant on aeronautical revenues, with the emergence of a new trend towards international flying. This ultimately further exposes the industry to global economic conditions and a more complex demand environment. That said, we note a rebound in investment amid strong financial performance for Australian airports in FY23/24. The country's four largest airports - Sydney, Melbourne, Brisbane and Perth - saw record operating profits, despite passenger numbers remaining below pre-Covid highs. This improvement is attributed to a resurgence in international travel and a pick-up in some non-aeronautical revenue, such as parking and landside access. We estimate that investment will be strong in the sector as airports continue to develop their revenue generating portfolio.

Key Project Updates

In July 2025, the construction of Western Sydney International Airport (WSI) was completed. The project cost AUD5.3bn (USD3.5bn) and was delivered seven months earlier. The airport is scheduled to be operational in late 2026 and has been a catalyst for further investment in the transport sector, including the Metro link that is currently under construction.

Melbourne Airport is currently undergoing a large-scale modernisation and expansion project to add runways and improve operations and facilities, with investment stated to be around AUD500mn.

In May 2024, Perth Airport and Qantas announced a AUD5.0bn (USD3.3bn) investment plan as part of a 12-year commercial agreement. The plan includes a AUD3.0bn (USD2.0bn) investment in a new terminal that is scheduled for completion in 2031, two multi-storey carparks, improved access, a hotel and expansions to terminals 3 and 4. As part of the agreement, Qantas will construct a new engineering hanger.

Ports

Australia is heavily reliant on ports and shipping for its international trade, with the vast majority of trade volume and value - around AUD 650bn (USD423.9mn) - passing through its port infrastructure each year. Unlike airports, we note a trend that ports revenue generation is not highly exposed to demand fluctuations. This is in part due to goods trade being more resilient to economic downturns. As a result, we expect revenue and investment in the sub-sector to remain robust, with the majority of projects aimed at

modernising and improving existing infrastructure and automating operations. Due to the limited scale of ports compared to the country's extensive road and rail networks, investment growth in the ports sector can be relatively more sensitive to individual large-scale projects. This dynamic trend tends to buoy the right tail of the distribution, increasing the likelihood of higher-than-expected investment growth.

Key Project Updates

The Port of Townsville Expansion Project is a long-term plan for Northern Australia's largest container port, with a total expected value of AUD1.6bn (USD1.0bn). Stage 1 was completed earlier in 2025 and cost AUD251.0mn (USD163.7mn). It involved large-scale dredging to widen the shipping channel from 90m to 180m, enabling 300m cargo ships to access the port. Stage 2 is estimated to cost AUD690.0mn (USD450.0mn) and will see the construction of two common user berths, a seawall, additional dredging of berths and approach channels, and upgrades to improve access and operational efficiency.

In June 2024, Jan De Nul Group was awarded a contract to expand Port Hedland's infrastructure, including deepening access for two new berths as part of the Lumsden Point General Cargo Facility and Logistics Hub. This project is designed to enhance capacity at Australia's largest export port, improving berth availability and cargo handling to boost logistics, freight operations and trade efficiency. The upgrade will support continued growth in bulk mineral and containerised cargo exports. The cost of the project is expected to surpass AUD700.0mn (USD456.5mn).

In January 2025, DP World and NSW Ports announced plans to co-invest in a AUD400.0mn (USD260.9mn) project to enhance the logistics capability of Port Botany. The project aims to more than double the capacity of TEUs arriving at the rail terminal by constructing five additional rail sidings, each able to accommodate 600m-long intermodal trains. Construction is expected to take two years.

Energy And Utilities Infrastructure

Key View: *The energy and utilities sector will see robust investment linked to the energy transition, reinforced by continued government support following the Labor Party's decisive victory in Australia's May 2025 elections. Green hydrogen and battery energy storage systems are key bright spots that will contribute to growth.*

Latest Developments

- In July 2025, the Australian government launched the AUD2.3bn (USD1.5bn) Cheaper Home Batteries Programme. This subsidy aims to reduce the cost of implementing battery storage to new or existing PV systems and is guaranteed until 2030, with an annual review to adjust for change in real cost.
- In June 2025, state-owned energy company Stanwell withdrew its support for the AUD14.75bn (USD9.6bn) green hydrogen project, citing an increase in projected costs (from AUD12.5bn to AUD14.75bn). The news highlights this significant headwind for the industry and provides additional risk to Australia 2050 net zero commitment.
- In August 2025, Atmos Renewables and Nomad Energy commenced construction on the 100MW/400MWh Merredin BESS, co-located with the 132MW Merredin Solar Farm in Western Australia. Located near the 220kV Muja-Kalgoorlie line, the battery will connect to the South-West Interconnected System (SWIS) and serve the Western Australian Wholesale Electricity Market (WEM). GenusPlus Group is the EPC contractor. Commissioning is expected in October 2026.
- In August 2025, AGL Energy and Someva Renewables secured planning approval for the AUD3.6bn (USD2.3bn) Pottinger Energy Park in New South Wales, Australia. The project includes up to 1.3GW of wind power from 247 turbines and 500MW/2,000MWh of battery storage. Construction of the project's Phase I, featuring 140 turbines and 400MW storage, is expected to start after a final investment decision in 2026.
- In July 2025, Iberdrola Australia received approval from the Offshore Infrastructure Regulator for its 3GW Aurora Green offshore wind project off Gippsland, Victoria. The green light enables metocean studies to study, including deploying FLiDAR and wave buoys to gather wind and ocean data. Located 25km off Ninety Mile Beach, the project will feature up to 150 turbines, powering over 2.2mn homes. Phase I (1GW) is slated for operation by 2032.

Energy And Utilities Infrastructure Data (Australia 2024-2034)

Indicator	2024	2025f	2026f	2027f	2028f	2029f	2030f	2031f	2032f	2033f	2034f
Energy and utilities infrastructure industry value real growth, % y-o-y	13.6	14.1	2.6	1.1	1.1	1.3	1.5	1.3	1.4	1.3	1.3
Power plants and transmission grids infrastructure industry value real growth, % y-o-y	11.2	20.8	3.0	0.5	0.8	1.3	1.5	1.4	1.5	1.4	1.5
Oil and gas pipelines infrastructure industry value real growth, % y-o-y	4.4	-21.4	7.5	7.5	5.0	4.0	4.2	3.8	3.2	3.3	3.3
Water infrastructure industry value real growth, % y-o-y	20.2	9.6	1.1	1.2	0.9	0.8	0.9	0.7	0.8	0.6	0.6

f = BMI forecast. Source: National sources, BMI

Structural Trends

Existing Network Already Well Developed

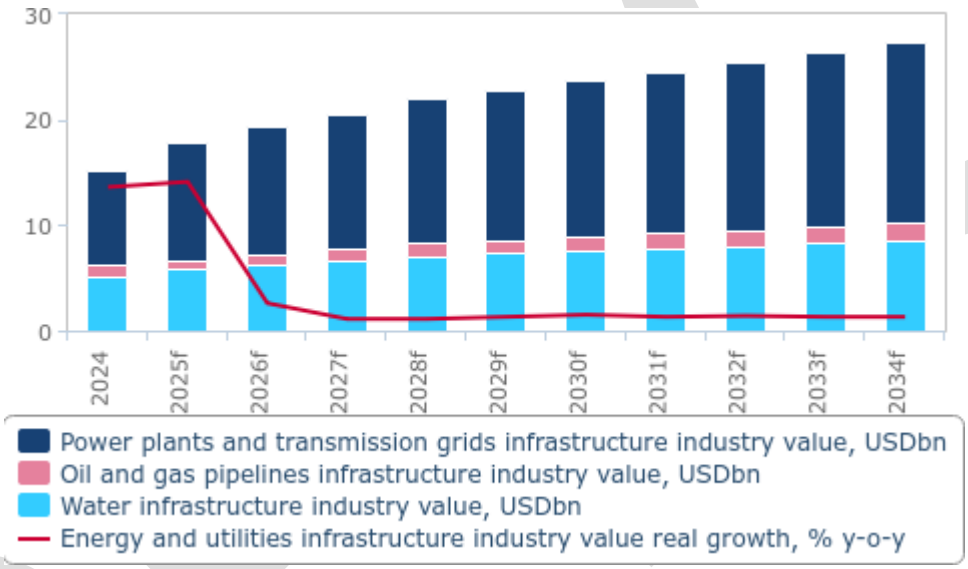
We anticipate a moderation in energy and utilities infrastructure construction growth over the coming years. We forecast that the sector will see real growth of 2.6% in FY25/26 (2026) and 1.1% FY26/27 (2027), with average annual growth of 2.7% over our 10-year forecast period extending to FY33/34 (2034). This will follow four years of robust expansion, with average annual real

growth for the segment of 11.8% y-o-y between FY21/22 and FY23/24 and forecast growth of 14.1% in FY24/25. This moderation will in part be a result of base effects, given the scale of the expansion seen in recent years. That expansion was driven in particular by the power & renewables sector, which accounts for the largest share of energy and utilities infrastructure construction. Additionally, we note the well-developed nature of the existing energy and utilities network as another key reason for the more moderate growth anticipated ahead, as it limits the extent of investment needed in the segment over the coming years.

Within the sector, we anticipate substantial investment tied to energy transition efforts, as the government's commitment to bolstering such efforts appears set to persist. This will remain a key driver of investment in the power & renewables sector over the coming years.

Power Plants Driving Growth In Utilities Sector

Australia - Industry Value By Sub-Sector, Energy & Utilities Real Growth (2024-2034)



f = BMI forecast. Source: National sources, BMI

Energy Transition Efforts To Support Power Investment

Power sector investment over the coming years will be supported by government policy, with Australia's national government giving high priority to advancing the energy transition, as noted above. On March 25 2025, the Australian government reiterated its commitment to spending AUD22.7bn (USD14.8bn) over the next 10 years as part of its Future Made In Australia bill. The bill is broadly aimed at achieving net zero greenhouse emissions by 2050. One key component is investing in development and deployment of emerging technology (which equated for around 14% of the total expenditure over 10 years), with a specific focus on some priority industries – namely, green metals and low carbon fuels. Furthermore, the bill aims to commercialise Australia's green transition and attract private investment to limit reliance on public funding. This is intended to ultimately ease the pressure of higher utility bills on consumers and involve local communities in the renewable energy push.

Traditionally, growth in Australia's renewable power capacity has been driven chiefly by the installation of large-scale power projects, most notably solar and onshore wind farms in recent years. More recently, the effective implementation of initiatives such as the Small-Scale Renewable Energy Scheme has led to a significant uptick in distributed renewable generation, an area that had previously lagged behind expectations. In a recent legislative development, the Albanese administration announced the AUD2.3bn (USD1.5bn) Cheaper Home Batteries Programme. This initiative aims to benefit from the recent uptick in PV system popularity by partly subsidising the installation of BESSs, a significant step forward towards achieving one of the core objectives of the Future Made In Australia bill. Once the growth of distributed solar is unlocked, we anticipate that Australia will experience unprecedented

growth of its non-hydropower renewables capacity. This will support significant investment in the power infrastructure market.

We expect federal support to continue to complement ongoing plans to accelerate large-scale renewables growth in the market, working with the Capacity Investment Scheme and existing plans for offshore wind. We anticipate that existing momentum and policy measures to increase large-scale renewable power projects will also receive a boost, with successive Federal Budgets enforcing the government's commitment to renewables. This will increase investor and developer confidence in the market, with growth prospects to ramp up over the coming decade. Our forecasts for solar and onshore wind growth are partly based off the success of the Capacity Investment Scheme (CIS), which experienced strong interest from companies.

The first auction of the CIS, which opened in 2024, supported 6GW of new power and received registrations for projects totalling more than 40GW. We highlight that capacity awarded under the CIS encompasses solar, wind and BESS, allowing companies to bid for a variety of technologies. According to the government, the scheme will launch a tender approximately every six months until 2027, creating opportunities for developers to be involved, with the government aiming to generate investment of AUD73.0bn (USD47.6bn) in the sector. On March 20 2025, the government announced a second successful tender process that resulted in the selection of a further four projects with a combined dispatchable capacity of 2.6GWh. The third and fourth tenders to be held under the scheme are currently under way and expected to be announced from September 2025. The government aims to deliver a further 22WGh of dispatchable capacity. A recent change in the process aims to reduce the bureaucratic burden by consolidating both stages of the application process. This will be in effect from the fifth tender onwards.

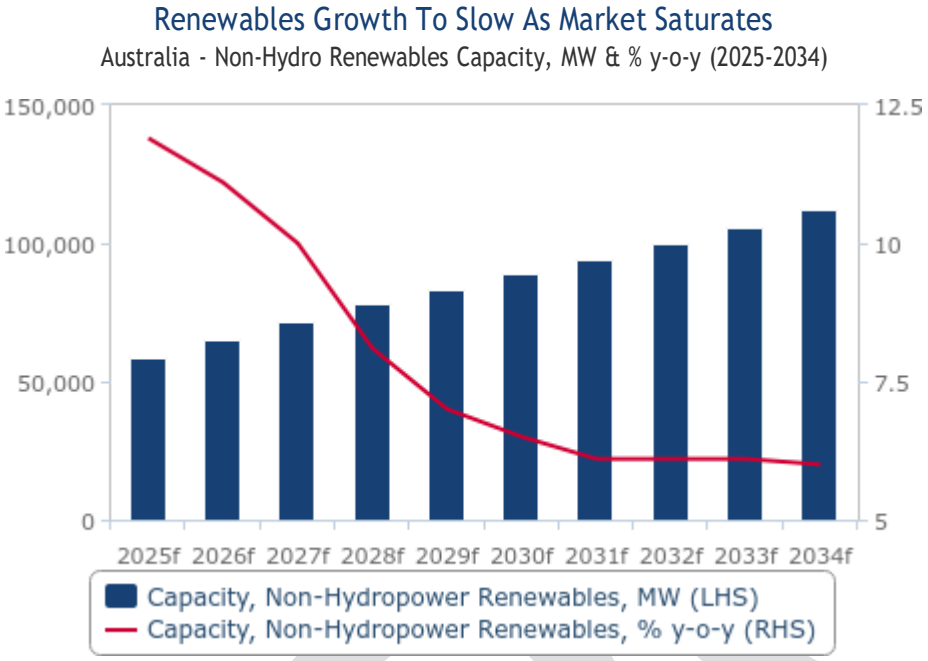
Projects Awarded Under CIS - Tender 2

Project Name	Company	Technology	Capacity	Location
Boddington Giga Battery	PGS Energy	324MW (4-hour) battery + solar	1,200MWh	Marradong
Merredin Big Battery	Atmos Renewables	100MW (4-hour) battery	400MWh	Merredin
Muchea Battery	Neoen	150MW (4-hour) battery	615MWh	Muchea
Waroona Renewable Energy Project – Stage 1	Frontier Energy	80MW (4.8-hour) battery + solar	380MWh	Waroona

Source: Department of Climate Change, Energy and Environment and Water, BMI

We note that the decisive victory of the Australian Labor Party in the country's May 2025 election will see a continuation of the government's commitment to scaling renewable projects and energy storage technologies, with key policies including a AUD2.3bn home battery subsidy that launched on July 1 2025. This initiative, along with ongoing programmes like the Capacity Investment Scheme and Solar Sunshot initiative, aims to boost Australia's renewable energy sector and establish the market as a leading producer of renewables. In contrast, the Liberal-National Coalition's alternative plans had focused on fossil fuels and nuclear power.

Given the Labor Party's strong support for the sector, we expect a policy continuity and a generally supportive environment for renewables development going forward, with greater certainties and financial support that will drive up further investments in the sector. Individual state level governments, such as those in South Australia, Australian Capital Territory, Victoria and Queensland, have set ambitious state targets and are also implementing regulations - primarily capacity auctions and financial subsidies - to meet targets. This victory is expected to boost confidence in renewable energy and carbon markets by paving the way for a more ambitious 2035 Nationally Determined Contribution, building on policies like the 82.0% renewable energy target and adding 40GW of renewable capacity by 2030. The new majority is set to accelerate decarbonisation across the economy through initiatives such as large-scale transmission upgrades, home battery subsidies and stricter measures under the Safeguard Mechanism.



f = BMI forecast. Source: National sources, BMI

Limited Investment For Other Power Segments

Over the coming years, hydropower and thermal production will continue to play an important role in meeting Australia's energy needs while the country continues to see heavy investment in the green transition. The government's broad strategy remains to phase out thermal production over the coming two decades and replace it with green alternatives, while maintaining hydropower as a small yet important diversifying source. While we note the importance of the sectors for generation in coming years, we expect greenfield investment opportunities to continue declining as the focus turns to maintenance and other sectors. Delays in coal plant closures, due to concerns that alternative sources may not bridge the supply gap in time, may necessitate increased investment in brownfield improvements and upgrades to keep existing facilities operational.

Key Projects

- **Kidston II Pumped Hydropower Project (250MW):** Main construction began in May 2021 on the 250MW/2,000MWh Kidston pumped-storage hydropower scheme in Queensland. Backed by AUD777.0mn in funding from the Northern Australia Infrastructure Facility and ARENA, the project features two 125MW Andritz Hydro reversible pump turbines and a 1.5km main access tunnel. Completion is now expected in late 2025 or early 2026, although official updates remain limited. The project also includes a 50MW solar farm and 258MW wind power, with EnergyAustralia securing an offtake agreement.
- **Snowy 2.0 Pumped Hydropower Project (2.0GW):** The Snowy 2.0 project will add 2GW to the Snowy Mountains Scheme at a cost of AUD12.0bn. Despite strong opposition from environmental groups, the project continues with government backing and aims to boost storage for renewables. Contractor issues and technical delays have pushed expected completion to 2028/2029, beyond earlier projections for 2027/2028.

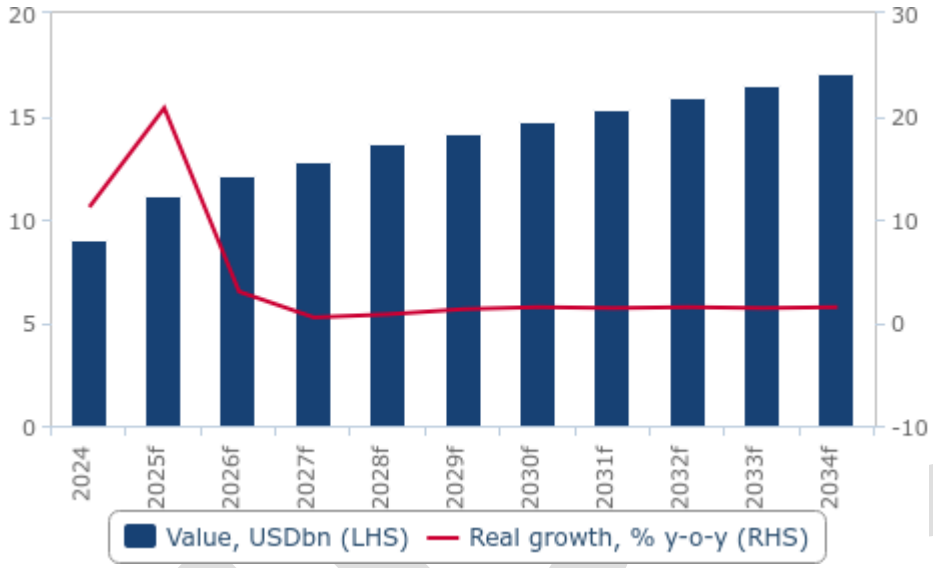
Grid Infrastructure In Focus

One of the key goals of the Albanese government is to improve the transmission network. As part of the Labour Party's 'Powering Australia' plan the party proposed the AUD20.0bn 'Rewiring the Nation' plan to upgrade the country's existing transmission infrastructure, accelerating the construction of high-voltage lines by lowering financial and administrative barriers. This aims to tackle some of the hurdles associated with the green energy transition and ensure that generation projects are not isolated, In addition to this, the Labour Party administration aims to reduce household reliance on grid infrastructure by enacting the AUD2.3bn Cheaper Home Batteries Programme. This initiative aims to decrease the cost in household BESS installation, ensuring that supply

from household solar generation can be better used to meet the demand.

Strong Growth For Power Plants And Grid Infrastructure In 2025

Australia - Power Plants & Transmission Grid Infrastructure Industry Value & Real Growth (2024-2034)



f = BMI forecast. Source: National sources, BMI

Gas Midstream Investment to Remain Stable

Gas and LNG midstream infrastructure development stands to see steady investment growth over the coming years. This will be spurred by upstream investment in gas exploration as Australia attempts to position itself to meet the growing domestic and international demand for gas and LNG. Our Oil & Gas team estimates that the production of gas will pick up strongly in Q4 2025 and into 2026, due to key infrastructure projects - namely the Darwin LNG project and the Woodside Energy's Scarborough Project. We estimate that Australia will continue to channel investment strategically in the industry, with a specific focus on LNG infrastructure to meet the growing demand from Japan, South Korea and Mainland China - which account for the vast majority of export volumes. While the majority investment is expected in terminals and non-residential construction projects, we note demand for pipeline infrastructure. An example is the 430km pipeline connecting the Scarborough offshore gas field to the Pluto 2 LNG facility and rail network.

Water Infrastructure

Australia maintains a well-developed network of water infrastructure; however, the market faces several significant challenges. These include a higher risk of wildfires due to climate change, lack of strong connections to water infrastructure networks for rural residents and a need for greater diversification in water access. As a result, we expect continued investment for projects that will create a more robust infrastructure network to address the country's unique challenges. Among major projects currently under construction, we highlight the following:

- **Darwin Region Water Supply Infrastructure Stage 1:** In July 2025, construction on Maton Dam commenced. The project aims to restore and upgrade the existing infrastructure in the Northern Territory - allowing for a 7,300 megalitres per year to be distilled into the Darwin supply network. Construction is scheduled for completion mid-2026 and is estimated to cost AUD327.6mn (USD213.7mn). Stage 2 of the plan includes the construction of the Adelaide River Off-stream Water Storage project. If successful, this would increase the water availability at the site without the need to construct a dam, which helps to meet the environmental aspirations of the government.

- **Water Infrastructure For Sustainable And Efficient Regions (WISER) initiative:** This plan highlights 23 key projects that are set for construction activity to commence mid-2025. With this package, the government aims to increase the safety and reliability of water for regional and remote communities and build resilient infrastructure that complies with the environmental objectives of the government. The budget for this plan is AUD211.0mn (USD137.7mn).
- **Eurobodalla Southern Storage Project:** In 2016, construction began on a AUD140.0mn (USD91.3mn) project to build a off-steam water storage dam and pump station. With this project, the Australian and New South Wales governments hope to improve water security and resilience to droughts. Construction is expected to be completed mid-2025.
- **Alkimos Seawater Desalination Plant:** Construction began in 2024 on a AUD2.8bn seawater desalination plant in the Western Australia. This is one of many construction projects of the kind, aimed to address the risks of reducing rainfall and growing population on water access.

Residential/Non-Residential Building

Key View: *Building construction will strengthen in the coming quarters, following relatively weak growth in FY2024/25 on the back of subdued household spending and business activity. From FY2025/26, strengthening growth will be supported by a more conducive monetary policy environment and government support for housing development.*

Latest Developments

- The Labor Party's decisive victory is expected to be a boon for housing construction. Central to the party's campaign was the promise to construct 1.2mn new homes, a strategic initiative aimed at alleviating housing shortages and enhancing accessibility to home ownership. We expect strong government support for the sector, including significant funding for housing initiatives.
- At its August 2025 meeting, the Reserve Bank of Australia (RBA) lowered the cash rate by 25 basis points (bps) to 3.6%, marking the lowest level in two years. Our Country Risk team anticipates one additional 25bps cut by the end of 2025, with easing monetary policy in turn to provide support for building construction activity.
- In July 2025, Macquarie Data Centres' unit signed a AUD240.0mn (USD157.0mn) option agreement to buy a large Sydney land parcel for a new 150MW hyperscale data centre campus in Australia.
- Also in July 2025, the Victoria State Government started major construction on the Melton Hospital, with an investment of approximately AUD900mn (USD585mn) in Melbourne. The new facility will serve around 130,000 patients per year and handle nearly 60,000 emergency visits. Construction includes excavation, piling and foundational work, with completion targeted for 2029.
- On May 27 2025, the Government of Western Australia announced the appointment of WeBuild as the managing contractor for the new AUS1.8bn (USD1.2bn) Women and Babies Hospital project in Australia. Construction is expected to begin in 2025 and estimated to be completed by 2029.

Residential And Non-Residential Building Industry Data (Australia 2024-2034)

Indicator	2024	2025f	2026f	2027f	2028f	2029f	2030f	2031f	2032f	2033f	2034f
Residential and non-residential building industry value real growth (%)	0.9	0.3	2.8	3.7	3.9	3.8	3.7	3.7	3.6	3.6	3.5
Residential Building Industry Value Real Growth (%)	-3.2	3.7	3.6	2.8	2.9	3.1	3.2	3.3	3.3	3.4	3.4
Non-residential Building Industry Value Real Growth (%)	4.5	-2.6	2.0	4.5	4.9	4.4	4.2	4.0	3.8	3.7	3.5

f = BMI forecast. Source: Australian Bureau of Statistics, BMI

Structural Trends

Growth Subdued But Accelerating Into 2026

We estimate that growth in Australia's residential and non-residential building sector will be relatively weak in 2025, at just 0.3%, on the back of subdued household spending and business activity, although we forecast stronger growth in 2026 at 2.8% as non-residential construction activity rebounds. At its August 2025 meeting, the RBA decided to lower the cash rate by 25bps to 3.6%, marking the lowest level in two years. This decision aligns with our Country Risk team's expectations and marks the third 25bps rate cut of 2025. Furthermore, a deteriorating external economic environment, partly driven by increased US tariffs, prompted the RBA to consider a severe downside scenario. We expect this easing cycle to address risk of household finances and foster economic growth.

Australian households remain particularly sensitive to elevated interest rates due to high levels of debt and depleted savings. Nonetheless, we anticipate a slight decrease in the average debt service ratio (DSR) for Australian households in 2025. According to data from the Bank for International Settlements, the DSR remained flat in Q4 2024, marking the second successive quarter without movement since climbing from 17.2 in Q1 2024, and significantly higher than the 13.3% recorded in Q1 2021 (*see chart below*). While we expect the average DSR to remain elevated in 2025, we project it to gradually ease as the RBA continues to lower interest rates. Consequently, Australian households are likely to allocate a smaller proportion of their income to debt servicing, potentially improving the savings rate and freeing up funds for consumption.

Looking ahead, our Country Risk team forecasts a stronger contribution from households to overall growth as the credit environment becomes more favourable, and a small uptick in fixed investment. This should bolster activity in the residential, commercial and industrial infrastructure sectors in particular. Additionally, increased public investment in social infrastructure, including schools and healthcare facilities, is expected to drive further market expansion.

Over the longer term, growth in residential and non-residential will remain elevated, averaging 3.6% per annum between 2026 and 2034. A combination of private and public investment will continue to be channelled into the sector, in line with strong government spending, housing initiatives, the country's expansive mining sector and overall positive business environment. The residential construction industry is expected to gain momentum, as total dwelling unit approvals, a leading indicator for construction activity, are up 13.5% year-on-year. This may be somewhat offset by a fall in non-residential construction that we current estimate to decline by 2.6% in 2025, picking back up to 2.0% growth in 2026.

Rebound Ahead On Improving Credit Conditions

Australia - Residential & Non-Residential Building Industry Value, USDbn & % Real Growth (2025-2034)

f = BMI forecast. Source: Australian Bureau of Statistics, BMI

Supportive Policies To Boost Housing Construction

We anticipate residential building will grow by 3.7%in FY24/25 and by 3.6% in FY25/26. This will mark a continuation of significant rebound in growth after two years of contraction within the industry, 1.4% and 3.2% for 2023 and 2024 respectively. Moving forward, residential building growth will be supported by robust investment in new residential construction amid a backdrop of easing monetary policy, which will in turn ease credit availability and affordability for both housing developers and homebuyers. We also expect government policies to play a strong role in boosting the sector over the near and medium terms, with the current government advancing a number of initiatives aimed at boosting the housing sector. In particular, we highlight:

- **First Home Loan Deposit (FHLD) Scheme:** The government has increased the FHLD scheme to35,000 places for FY25/26, allowing first-home buyers to secure a loan to build a new home or to purchase a newly built dwelling with a deposit as low as 5.0% and with the government guaranteeing up to 15.0% of a loan.
- **National Housing Accord:** The accord constitutes a AUD3.5bn investment to build 1.2mn new and well-located homes across Australia. With construction related to the plan starting Mid-2024 and expected to continue until Mid-2029.
- **Housing Australia Future Fund Facility (HAFFF):** This programme was established in 2023 under the Housing Australia Future Fund Act. Upon its establishment, the fund was credited with AUD10bn with the goal of increasing the supply of social and affordable housing – the fund has a mandate to support the needs of indigenous communities, services for woman, children and veterans as well as the broader population.

Our expectations around government policy are rooted in our view that the current government will prioritise housing development and efforts more broadly to increase housing availability and affordability. In recent years, housing affordability in Australia has emerged as a significant issue, impacting both prospective homeowners and renters. Over the past decade, house prices have surged dramatically, with the average price of residential dwellings reaching AUD1,002,500 (USD equivalent figure) in March 2025, up from AUD686,000 in Q4 2019 and AUD568,000 in Q4 2014 according to the Australian Bureau of Statistics. This sharp increase has rendered home ownership increasingly unattainable for many Australians, especially younger generations and low-income families. The Housing Affordability Index has declined steeply, signalling worsening conditions in housing affordability across the country.

Underpinning our outlook for strong growth particularly over the near term are robust growth in recent months of both housing permits and housing starts, according to data from the Australian Bureau of Statistics. In the first six months of 2025, the number of housing units approved rose by 15.7% y-o-y, continuing strong growth which saw the indicator rise by 5.8% y-o-y in full year 2024. In seasonally adjusted terms, growth has also persisted for this indicator, with year-to-date growth of 17.8% y-o-y, averaging 1.8% m-o-m growth in 2025.

Turning to housing units commenced, we observe a similar trend with last 12-month unadjusted figures showing a 9.2% increase compared to the previous year and a further 17.4% y-o-y growth in Q1. This growth points to a robust outlook for growth within the residential building sector in the coming quarters, further buoyed by improvements in consumption, increased availability of financing and strong legislative backing. We anticipate that residential building will be a key driver of construction activity overall in Australia.

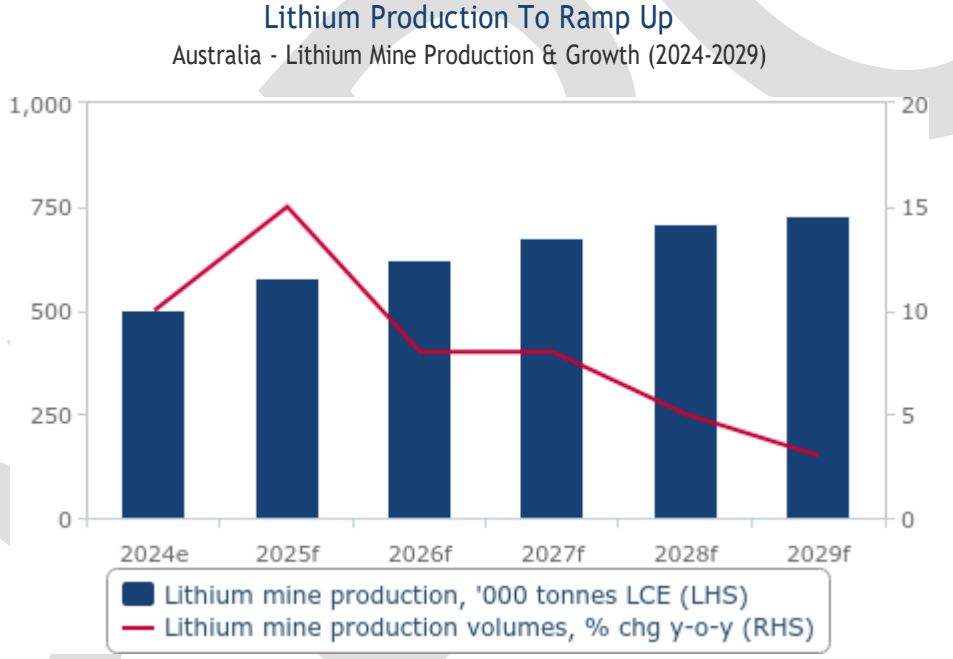
Expansive Mining Industry To Support Building Sector Growth

Australia’s mining sector will be an important driver of construction growth over the coming years, underpinned by a strong pipeline of new projects and increasing demand for 'green' minerals. The country’s overall mineral production is expected to rise as key sites like Gudai-Darri and Iron Bridge continue to ramp up operations.. Australia's mineral sector is poised for continued growth, driven by increasing prices for green minerals and a strong line-up of upcoming projects. This positive trend is expected to boost overall production. However, the coal and iron ore segments face challenges, including price declines, uncertain demand prospects and the ongoing shift towards cleaner energy sources. These factors are expected to diminish the sector's overall value in the period leading to 2034. As a result, we anticipate robust growth in mining-related transportation, logistics and processing facilities, to

support this expanded production capacity.

A significant part of this growth will come from increased investment in minerals critical for technology and the green energy transition, such as cobalt, lithium and copper. The Australian government has taken proactive steps to foster this expansion, releasing the most recent edition of the Australian Critical Minerals Prospectus in April 2025 to attract global investment. The establishment of the Critical Minerals Facilitation Office in 2020 highlights the federal government's commitment to developing the sector, focusing on a coordinated national strategy to strengthen Australia's role as a key supplier of these crucial minerals.

Moreover, Prime Minister Anthony Albanese's administration has emphasised the importance of partnerships and international investment, particularly through the launch of a new Critical Minerals Strategy 2023-2030. This strategy includes substantial funding commitments, such as AUD500mn via the Northern Australia Infrastructure Facility, aimed at accelerating the development of critical mineral projects. This focus on 'green' minerals will not only drive the country's mineral output but will also spur the growth of associated infrastructure, such as new processing plants, export terminals and enhanced supply chain networks, cementing Australia's role as a key player in the global energy transition.



e/f = BMI estimate/forecast. Source: USGS, BMI

Hydrogen Sector Catalysing Industrial Construction

Australia's hydrogen sector is expanding, driving substantial new investments into the industrial construction sector. With abundant natural resources and a strong government commitment to clean energy, Australia is well-positioned to become a global leader in hydrogen production, particularly in green hydrogen derived from renewable energy sources (see energy and utilities infrastructure sector). The federal government's long-term National Hydrogen Strategy, combined with state-level incentives, has catalysed large-scale projects and attracted significant international investment. Through this strategy, the government aims to make Australia a global leader in hydrogen production by 2050. Australia has the region's largest pipeline of green hydrogen projects, with 71 projects in development, according to our Infrastructure Key Projects Data as of August 2025.

This surge in activity is expected to boost the demand for industrial construction, as new hydrogen production facilities, storage infrastructure and export terminals are built to support the burgeoning industry. Key projects, such as hydrogen hubs in Western Australia and Queensland, are also creating opportunities for the development of pipelines and associated infrastructure, further

driving growth in the construction sector. Most recently, in November 2024, Hydrogen Jobs Plan received clearance under the EPBC Act for a green hydrogen hub near Whyalla in Australia. The project will feature a 250MW electrolyser, a 200MW hydrogen power station and a 100-tonne renewable hydrogen storage facility. In May 2025, the Australian government announced its support for a 6GW mega-project in Western Australia, with AUD814.0mn financing through the Australian Hydrogen HeadStart programme. Construction on the Murchison Green Hydrogen Project is estimated to start in 2027, FID is set for 2026.

Healthcare PPPs To Remain A Key Strength

Australia has one of the most attractive infrastructure public-private partnership (PPP) markets in the world. Arguably, Australia's greatest strength is its healthcare PPP market where, along with the UK, it is a world leader in the private procurement of healthcare facilities. Given the country's public healthcare system and established expertise with the use of the model, the healthcare PPP market has flourished, with the state of Victoria possessing the most conducive environment for PPP procurement. Given the relatively small number of markets with established health PPP sectors, and with investors increasingly wary of the demand risk associated with potentially higher margin assets, such as airports or toll roads, Australia's social infrastructure PPP market will remain attractive.

While the pipeline of new projects is limited compared with the UK and Canada, the average value of deals is notably higher in Australia, with relatively robust support from the Australian government. The Australian government had previously announced that it would make a sizeable investment in healthcare and education facilities over the medium term. These plans could be accelerated to support economic development over the short term and to bring encouraging signs for Australia's PPP market. Although these multibillion-dollar projects carry higher risks (and bidding costs) for investors, Australia's strong platform for the delivery of healthcare PPPs will keep demand strong.

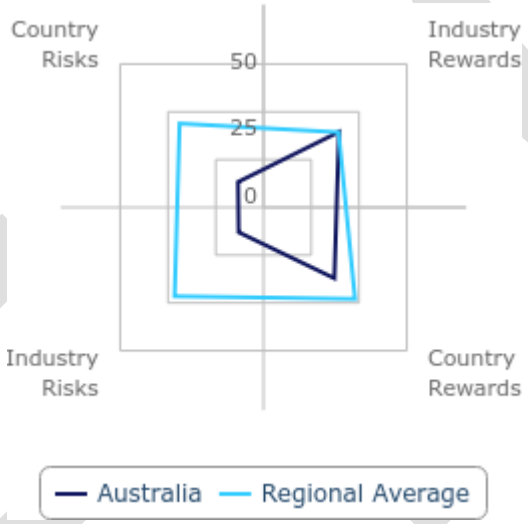
Industry Risk/Reward Index

Australia Infrastructure Risk/Reward Index

Key View: *Australia remains one of the most attractive markets globally for infrastructure investment, as it outperforms regional and global averages in our Infrastructure Risk/Reward Index, underscoring its status as a low-risk, high-reward market. This is still the case despite near-term uncertainties in the economic outlook from US tariffs and global trade tensions, as well as from the recent political elections.*

Risk/Reward Snapshot

Australia & Asia Region - Infrastructure Risk/Reward Index



Note: Scores out of 100; lower score = more attractive market. Source: BMI Infrastructure Risk/Reward Index

Global And Regional Rank

- Global rank (out of 104): 5th
- Regional rank (out of 21): 2nd

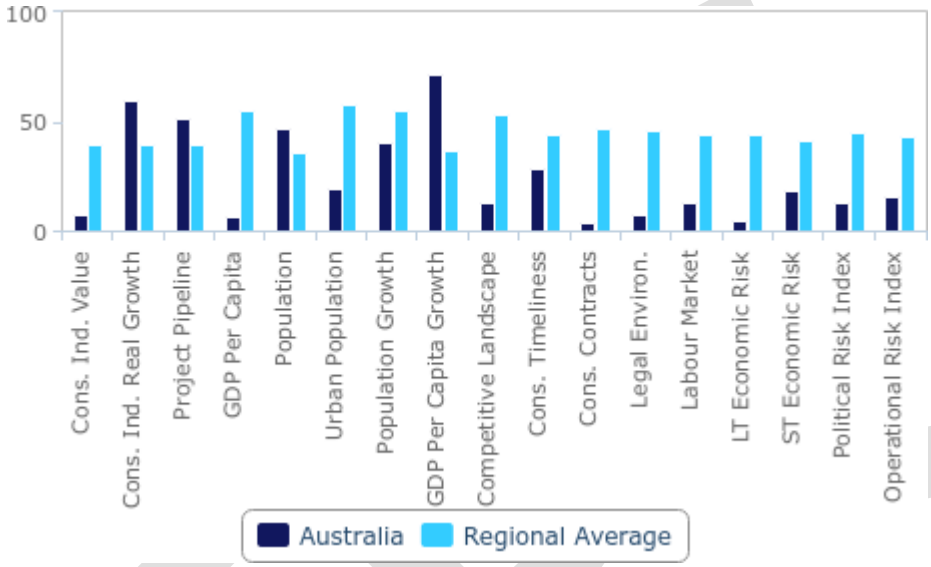
Key Features And Latest Updates

- Australia's strong performance in the Industry Rewards pillar of the Infrastructure Risk/Reward Index (RRI) is supported by a plethora of investment opportunities in the construction market across all infrastructure sectors, underpinned by a 10-year infrastructure plan and initiatives to boost private sector involvement.
- Australia also performs well in the Country Rewards pillar compared to the global average, although we note downside risks in particular to the country's economic outlook. Our Country Risk team anticipates below-trend real GDP growth of 1.6% in 2025, resulting in part from the anticipated slowdown in Mainland China's growth and a more uncertain global economic outlook, driven by ongoing trade frictions. Despite expectations of a more dovish monetary policy stance from the Reserve Bank of Australia, several factors are also likely to suppress business investment, including an increasingly uncertain consumer demand environment, potential tightening of financial conditions and shrinking corporate margins.
- As a mature market, Australia's well-established legal frameworks and public-private partnership structures create a favourable investment environment, bolstering strong Industry Risk scores. The country leads in contract enforceability, minimising legal risks for contractors and investors.

- Australia's outperforming Country Risks score highlights a largely favourable business environment, characterised by stable economic policy, limited political risk and minimal operational risks.

Risk/Reward Matrix Breakdown

Australia & Asia-Pacific - Infrastructure Risk/Reward Index By Component



Note: Scores out of 100; lower score = more attractive market. Source: BMI Infrastructure Risk/Reward Index

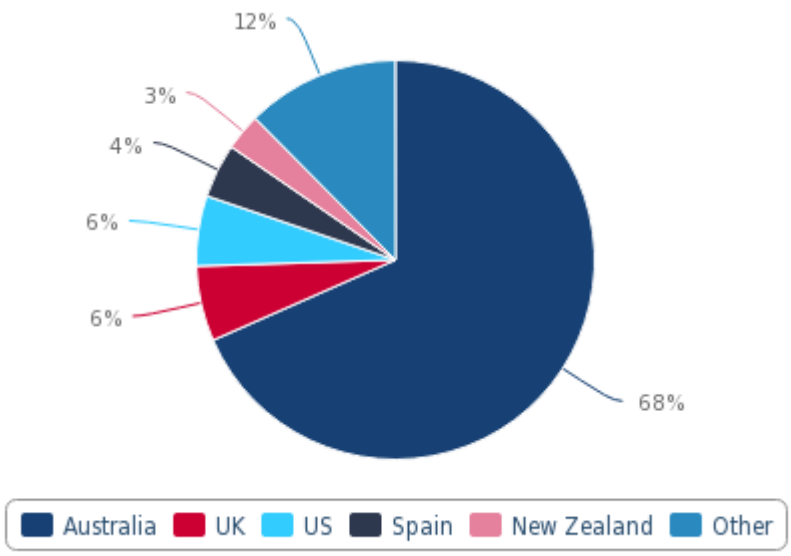
Competitive Landscape

Domestic contractors continue to play a dominant role in Australia's infrastructure sector, although major players from Europe, North America and the Asia-Pacific region are well-established and increasingly active. In Australia's advanced project financing environment, a significant share of financial roles is still held by domestic entities, complemented by strong participation from Japanese and European financiers. Traditional leaders such as Multiplex, John Holland and Lendlease Group still account for approximately 70% of the market share as project contractors. Their deep understanding of the local business landscape allows them to maintain strong expertise across a wide range of projects.

Despite the current dominance of local companies, we anticipate growing market share for international contractors over the next decade. New Zealand's Fulton Hogan and the UK's Laing O'Rourke have been particularly notable, with Fulton Hogan involved in flagship projects like the USD 12 billion WestConnex Motorway Project in New South Wales. With infrastructure spending expected to increase over the coming years, a growing pipeline of projects will present expanded opportunities for international construction companies, leading to greater competition and diversification within the market.

Domestic Contractors Dominate, Though Foreign Construction Majors Also Present

Australia - Share Of Construction Roles By Company Origin, %



Note: May include territories, special administrative regions, provinces and autonomous regions. Source: BMI Infrastructure Key Projects Data

Foreign companies continue to play a crucial role in the supply of specialised equipment, particularly in renewable energy and rail projects, due to a limited local manufacturing base for such advanced technologies. Major global suppliers like Vestas Wind Systems, Xinjiang Goldwind Science & Technology and Siemens remain key providers and installers of wind turbines for Australia's new wind farms. In the solar sector, companies like SMA Solar Technology and First Solar Group are the primary suppliers of panels for large-scale solar power plants. In rail infrastructure, international train manufacturers such as Alstom and Bombardier supply essential equipment, supporting major projects like the Sydney CBD, South East Light Rail Project and Gold Coast Light Rail.

Australia's sophisticated project financing landscape sees a strong presence of domestic financiers, though Japanese and European investors are also prominent. To advance its ongoing 10-year Infrastructure Investment Programme, the government is expected to rely increasingly on public-private partnerships (PPPs) to attract private investment, easing the financial burden on public budgets. Australia's well-established PPP framework, governed by the National PPP Policy Framework, ensures a consistent and efficient approach across all states and territories, facilitating collaboration between public and private stakeholders. Several high value projects in Australia have adopted the PPP procurement model. For example, the North East Link Tunnels PPP is Victoria's biggest road project and Australia's largest PPP. It includes 6.5km three lane twin tunnels, with interchanges and intelligent transport systems connecting the Metropolitan ring road (M80) to the Eastern Freeway (M3), completing a ring road around Melbourne.

We anticipate an expansion in PPP opportunities, especially in the development of social infrastructure projects like hospitals and educational facilities. Additionally, brownfield transport projects are increasingly being financed through the Asset Recycling Programme, as demonstrated by the sale of major motorways under the WestConnex Project.

Company Profile

Infrastructure Key Players: Acciona

Overview

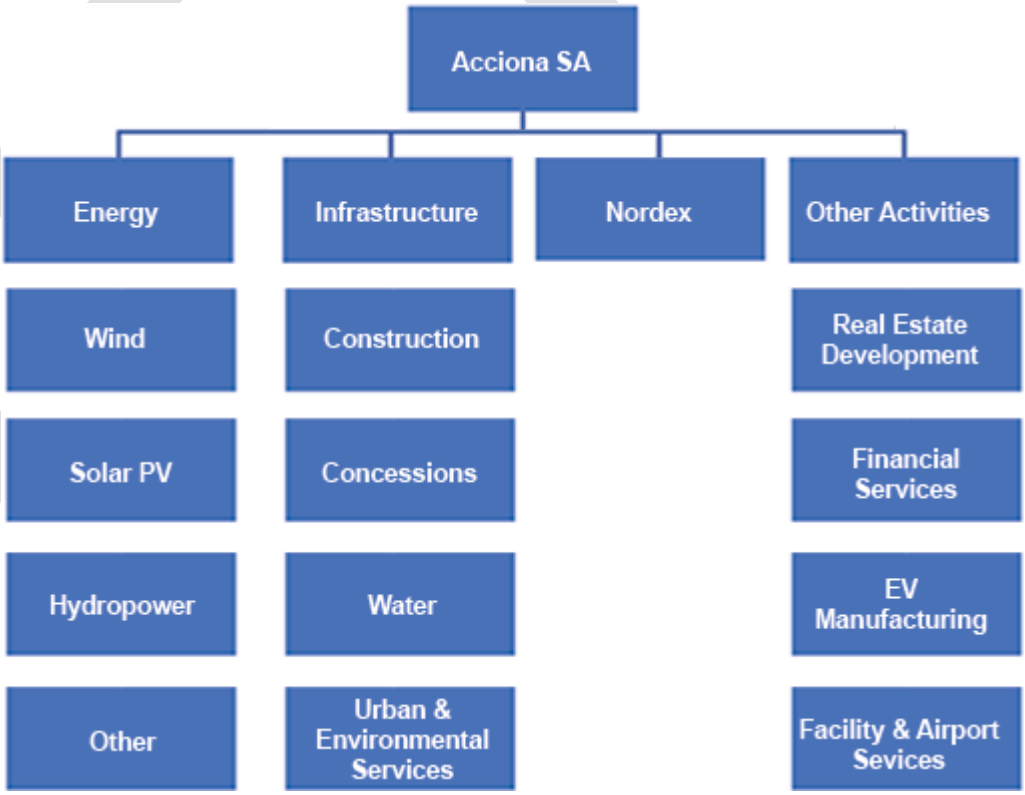
Acciona is a Spain-based company specialising in the development and operation of greenfield renewable energy and infrastructure assets. Formed in 1997 by the merger of Cubiertas y MZOV and Entrecanales y Tavora, the company employs close to 58,000 across 60 markets.

Acciona operates 4 overarching business lines:

- **Energy:** The development and operation of renewable energy assets.
- **Infrastructure:** The development, construction and operation of transport, energy, water, and social infrastructure projects.
- **Nordex:** The design, development, manufacturing and distribution of wind turbines and related components.
- **Other Activities:** Real estate development, financial services provision, electric vehicle manufacturing, and facility services.

Within these business lines, Acciona operates in a decentralised manner across and within markets, typically via joint ventures, minority stakes, or fully consolidated companies.

Acciona - Company Structure



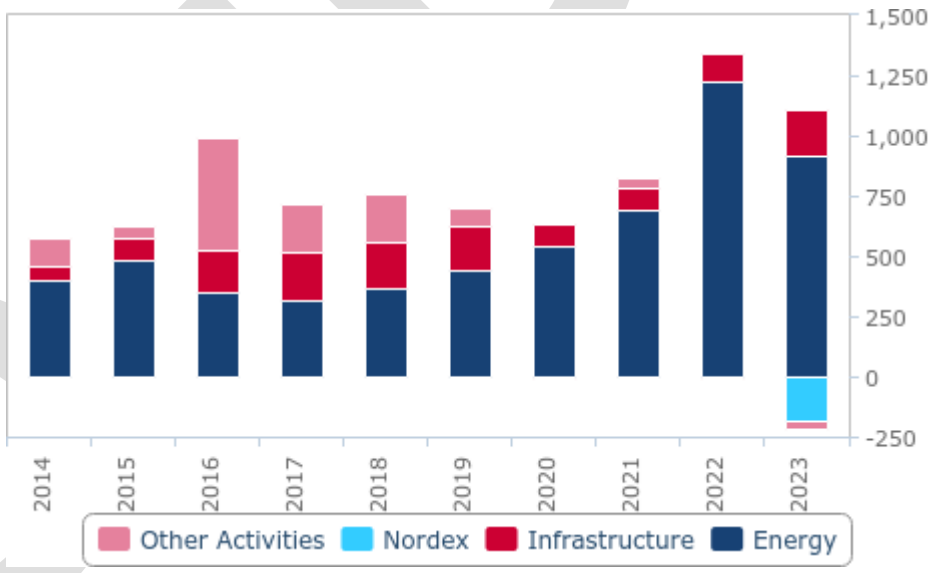
Source: Acciona, BMI

Acciona's latest full-year results, for the year ended 31 December 2023, show Acciona reported operating income of EUR1,251mn, down 6.1% from EUR1,33mn during 2022. Within this, Energy contributed EUR916mn, the largest of any respective segment. Energy remains the predominant generator of Acciona's operating income, having consistently accounted for the majority of the company's operating income since 2019 and growing unfazed by the Covid-19 pandemic. Additionally, we note a higher operating margin for Energy; 25.8% in 2023 versus Acciona's overall 7.4%. While Infrastructure has a lower overall operating margin, 2.4% in 2023, this largely reflects the inclusion of lower-margin construction activities within this segment alongside the higher-margin concessions activities, which benefit from economies of scale and low competition.

Prior to this slight fall in Acciona's operating income in 2023, Acciona had achieved near continuous positive growth year-on-year in its operating income during the past decades. The notable exception to this was during 2013, whereby the company's operating income fell to -EUR1,832mn. This relates to extraordinary losses incurred in the year concerning goodwill deterioration and impaired energy and real estate assets, particularly amid regulatory reforms that saw the withdrawal of renewables subsidies in Spain. Indeed, the wider impact of reforms to Spain's energy market saw Acciona combine its respective infrastructure and water operations into a single business line to enhance its competitiveness when bidding for tenders globally, and spurred Acciona's continuing effort to diversify its energy activities beyond Spain.

Energy The Core Of Acciona's Operating Income

Acciona - Operating Income By Segment, EURmn



Note: IFRS results. Figures according to segment reporting. Source: Acciona

Geographically, Acciona's operations are well-diversiifed both across and within its respective segments. Its Energy operations span 25 markets, including Spain, the United States, Mexico, Australia, and Italy. Overall, Spain remains its core market both in terms of installed capacity and revenue. As of 2023, Acciona generated around 65% of its Energy revenue within Spain, ahead of Chile, Mexico, and the United States.

Acciona's Infrastructure revenue is relatively more diversified, with Australia and New Zealand serving as the company's core revenue-generating markets. Specifically, Australia and South-East Asia accounted for 36% of Acciona's Infrastructure revenue during 2023, ahead of Latin America and Spain which accounted for a respective 18% and 17%. Acciona's longstanding presence in civil construction works in Australia drives the market's position as a key market for revenue generation, exemplified by the company's awarding of a EUR413mn design and build contract for the EUR2.7bn Western Harbour Tunnel in Sydney; the highest-value contract in the company's history.

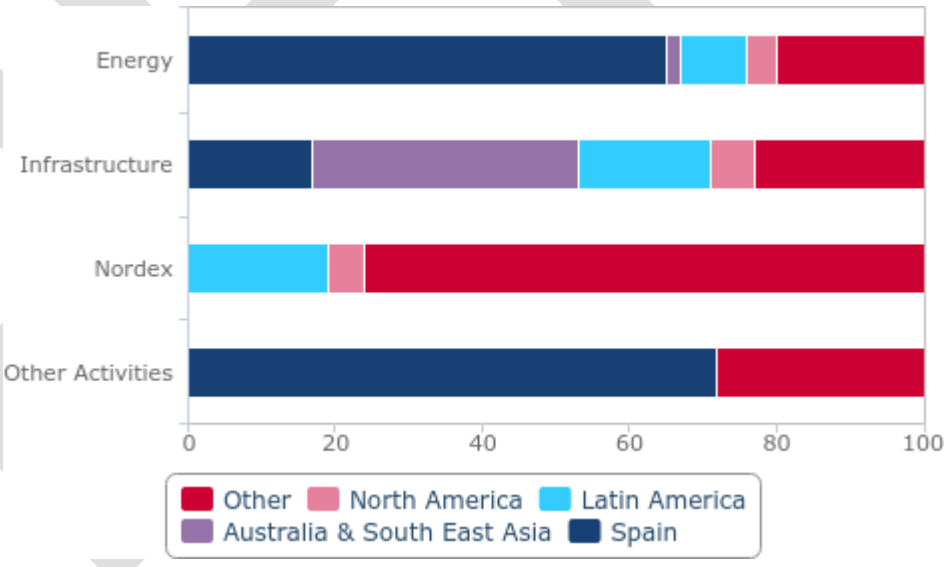
Across Concessions, however, Acciona's revenue remains more diversified. Its concessions portfolio holds 73 concession assets globally, of which 48 are within Europe, 10 in Latin America, 6 in the Middle East and North Africa, 6 in Australia and New Zealand, and 3 in North America. Acciona's Water activities, though accounting for a small portion of company revenue, maintain an outsized presence across Gulf Co-operation Council (GCC) markets. Acciona is present in GCC markets including Saudi Arabia, the UAE, and Qatar, owing to its expertise in reverse osmosis desalination design, construction, and operation, alongside the region's inherent need for such desalination capacity.

Nordex, meanwhile, has installed wind turbine across 40 respective markets since the company's formation in 1985. This covers markets across North America, Latin America, Europe, Australia, and South Africa. In 2023 alone, Nordex installed turbines across 24 markets, notably Brazil, Germany, Finland, and Poland.

Acciona's Other Activities segment, notably its Property Development, remain largely confined to Spain. As of 2023, 53% of the segment's gross asset value was comprised of residential development in Spain, alongside international activities in markets including Mexico and Poland.

Spain, Australia, Latin America Important Markets For Acciona

Acciona - % Of Revenue By Segment, 2023



Note: IFRS results. Figures according to segment reporting. Source: Acciona

Strategy

Acciona's presence in the design, build and operation of core and core plus infrastructure assets ensures stable long-term revenue generation, relatively high insulation from economic growth fluctuations, yet crucially scope for continued growth via its activities involving renewable energy assets. Its focus on long-term asset operation and management, alongside greenfield asset development ensures that the company maintains sufficient scale in lower-risk activities to offset risk-seeking in other areas of its operations. Specifically, Acciona views its activities as existing within 2 respective groupings, in terms of risk:

Long-Term Assets - Lower Risk:

Activities involving long-lived assets that entail relatively limited demand risk, long-term revenue assurance, high operating margins, and ultimately stable cash flow:

- Renewable energy generation
- Transport, social, and water infrastructure concessions
- Rental property management

Services & Greenfield Asset Development - Higher Risk:

Activities that entail the adoption of project risk, shorter revenue horizons, and are more exposed to cyclical fluctuations in economic growth:

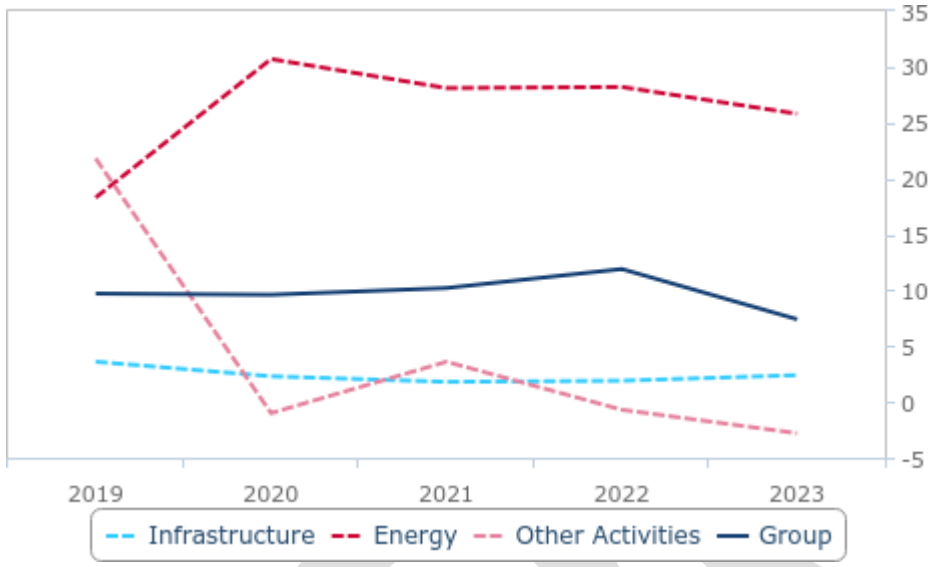
- Renewable energy asset development
- Civil construction projects
- Residential property development
- Infrastructure services

Specifically for concession assets, Acciona seeks to add 2-4 new transport concessions per year, alongside continued additions to its portfolio of water management assets. Key markets which Acciona is focusing its concessions expansion on include Brazil, Australia, the USA, Chile, and the UK.

Alongside Acciona's risk diversification, the company's business model also emphasises its geographic diversification across developed and emerging markets; both as an owner and operator of renewable energy assets and as a major civil construction contractor. In outlining its group structure, Acciona seeks to directly link its operations both to the inherent need for adequate transport, energy, and social infrastructure, and to its ability to support the reorientation of infrastructure assets to facilitate the low-carbon energy transition.

Energy Operations Remain High Margin For Acciona

Acciona - Operating Margin By Segment, % (2019-2023)



Note: IFRS results. Figures according to segment reporting. Source: Acciona

Acciona's means of expansion predominantly involve reinvestment in existing markets alongside pursuing M&A activity; with the latter often conducted to enter new markets. Among notable M&A activity conducted by Acciona is an increased stake in wind power operator Renomar. Completed in mid-2023, this saw Acciona increase its stake from 50 to 75% and serves to deepen Acciona's presence in wind power generation in Spain.

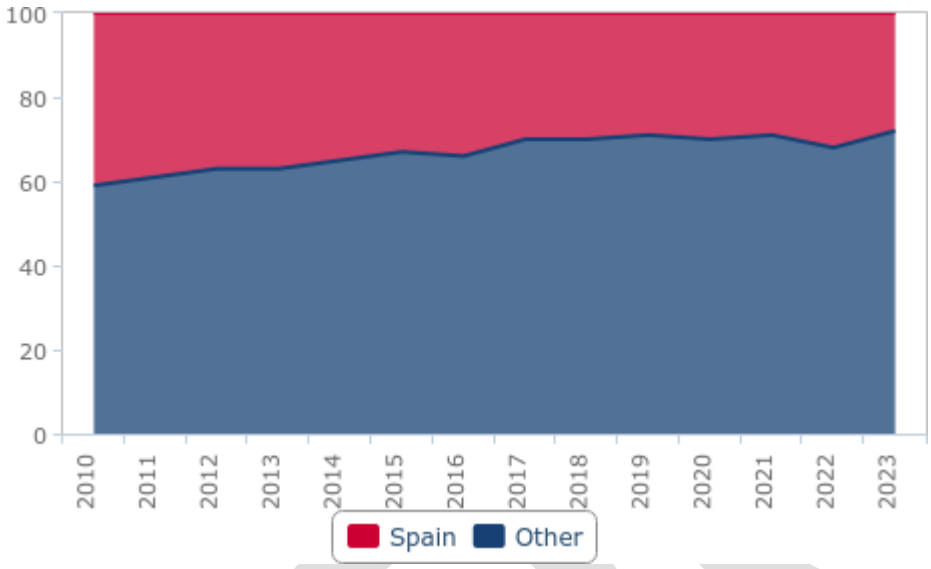
Elsewhere, 2022 saw the acquisition of an 85% stake in France-based Eqinov, which conducts corporate energy efficiency and energy management services. This acquisition represents Acciona's entry into the French market, while Eqinov latterly began operating in Spain. Acciona formally entered the electric vehicle (EV) charging infrastructure sector in 2021 via the acquisition of Cargacoches; a Spain-based EV charging point provider. The rebranded entity, Acciona Recarga, establishes a potential means for Acciona to capture the value of its renewable energy generation activities in Spain and to capitalise on the EV charging infrastructure's burgeoning position as a key electricity consumer. Currently, it seeks to install 25,000 public EV charging points by 2030.

Acciona has also demonstrated its ability to extract continued growth alongside consolidated companies, in particular via its involvement with Germany-based Nordex. 2016 saw Acciona complete the sale of Acciona Windpower, its wind turbine manufacturing business unit, to Nordex alongside Acciona establishing a 29.9% stake in Nordex. Acciona has since gradually increased its stake in Nordex, recently completing a debt-for-equity swap in Q1 2023 that raised its share in Nordex to 47%. Since April 2023, Nordex's activities are fully consolidated within Acciona's.

Among industry developments that have resulted from Acciona's collaboration with Nordex include in green hydrogen. The companies announced a joint venture in March 2023 to develop green hydrogen projects across the United States, Latin America, and Africa, which they envisage will produce 0.5mn tonnes of green hydrogen annually within the next 10 years. This follows Acciona's joint venture with US-based Plug Power, announced in February 2021, to develop, operate, and maintain green hydrogen projects across Spain and Portugal. As with the acquisition of Cargacoches, Acciona's M&A activity involving hydrogen production demonstrates its overarching aim at establishing exposure to nascent technologies conducive to the low-carbon energy transition, and to complement its existing infrastructure and energy assets.

Gradual Diversification Beyond Domestic Market Under Way

Acciona - % Of Group Revenue By Market (2010-2023)

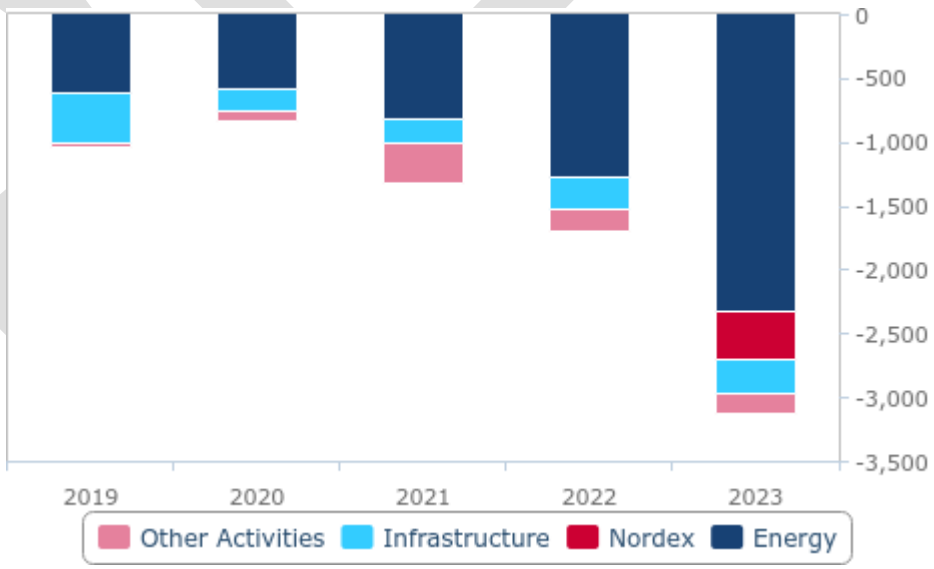


Note: IFRS results. Source: Acciona

Acciona's development of renewable energy assets via its Energy segment ensures that it enacts significant capital expenditure relative to the company's less capital-intensive segments. As such, 2023 saw Acciona's Energy segment realise capital expenditures totalling EUR2,321mn, amid EUR3,122mn across the wider company. Generally, Acciona commits to capital expenditures no longer than 12-18 months ahead, providing the company with greater flexibility in both its financial position and its ability to seek the most productive allocation of its capital.

Energy The Largest Area Of Capex

Acciona - Capital Expenditure By Segment, EURmn (2019-2023)



Source: Acciona

Outlook

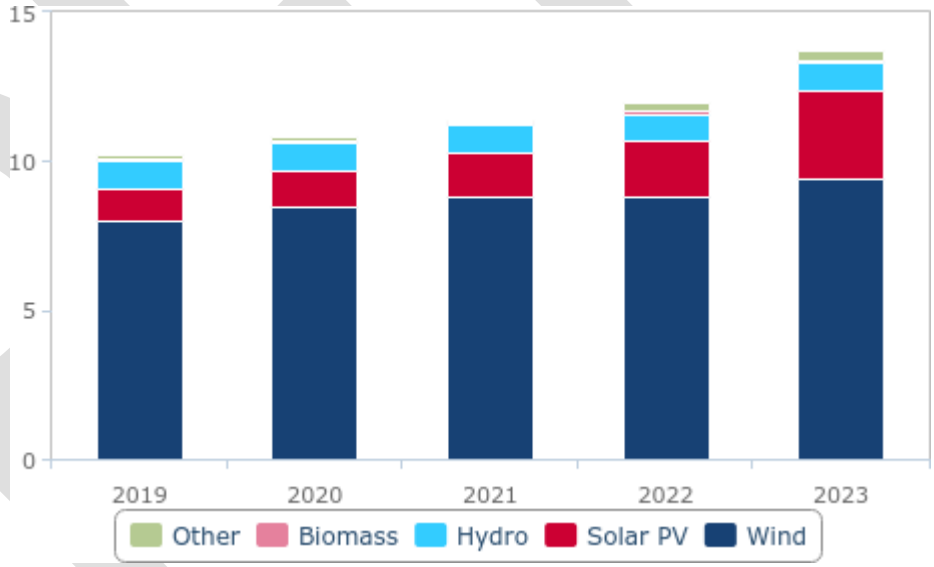
Acciona's presence across both mature and developing infrastructure markets provides a positive growth outlook, bolstered by the long-term stability of its cash flow-generating core and core-plus infrastructure assets. The company's sizable standing in energy infrastructure leaves it well-placed to capitalise on the low-carbon energy transition, and thus aligned with the evolving regulatory environment in its key markets. Specifically, Acciona's activities in renewable energy asset development directly align with legislative efforts to facilitate net-zero greenhouse gas emissions by 2050 in markets across Europe and North America. Even among the more-mature markets that Acciona operates in, such as in Europe and North America, the extent of the reorientation in energy generation away from carbon-intensive sources offers significant scope for Acciona to expand its capacity.

As noted in our Power & Low Carbon Energy Megatrends To 2050, we generally expect electricity consumption to increase in accordance with continued economic and population growth. Historically, the electricity consumption of a market generally follows real GDP growth rates. However, with the electrification of fossil fuel-based sectors having accelerated over recent years we have seen an outsized expansion in demand for low-carbon power generation. We expect to see several renewable technologies, including wind and solar, rapidly accelerate amid the low-carbon energy transition; technologies in which Acciona already exhibits scale and expertise globally.

Among its formal targets, Acciona is seeking to raise its total installed capacity from 13.5GW as of 2023 to 20GW by 2025 and >30GW by 2030. Though Acciona intends to achieve this target primarily via onshore wind and solar PV capacity additions, it intends for offshore wind, green hydrogen, and battery energy storage systems to each contribute to its targets.

Acciona Seeking >30GW Installed Capacity By 2030, From Current 13.5GW

Acciona - Total Installed Capacity By Type, GW



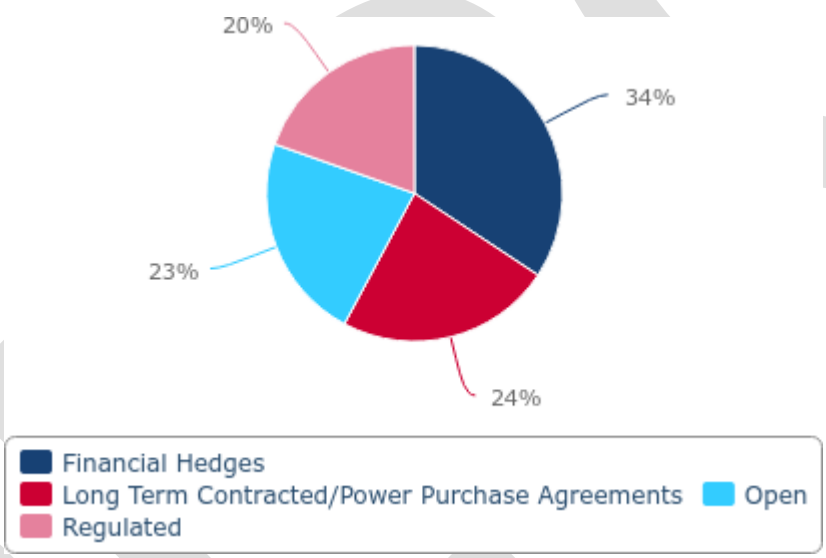
Source: Acciona

Supportive for the company's continued renewables capacity expansion is the demonstrated demand for Acciona's provision of power purchase agreements (PPA), feed-in tariffs, and emissions offsets. As companies seek to reduce their scope 2 emissions, which includes indirect emissions associated with the purchase of electricity, PPAs offer a feasible means to secure long-term, low-emission electricity supply arrangements which Acciona is well-placed to facilitate.

Across Acciona's consolidated output in Spain as of 2023, around 2.4TWh are currently engaged in PPAs or equivalent long-term supply contracts; equivalent to 24% of its output in the market. To enhance its long-term cash flow visibility, Acciona is seeking to increase its amount of output engaged in long-term supply contracts to 3.6TWh by 2025, alongside decreasing the share of output engaged in shorter-term financial hedges.

Acciona Seeking To Raise Share Of Long-Term Contracted Generation In Spain

Acciona - Spain Consolidated Output, TWh (2023)

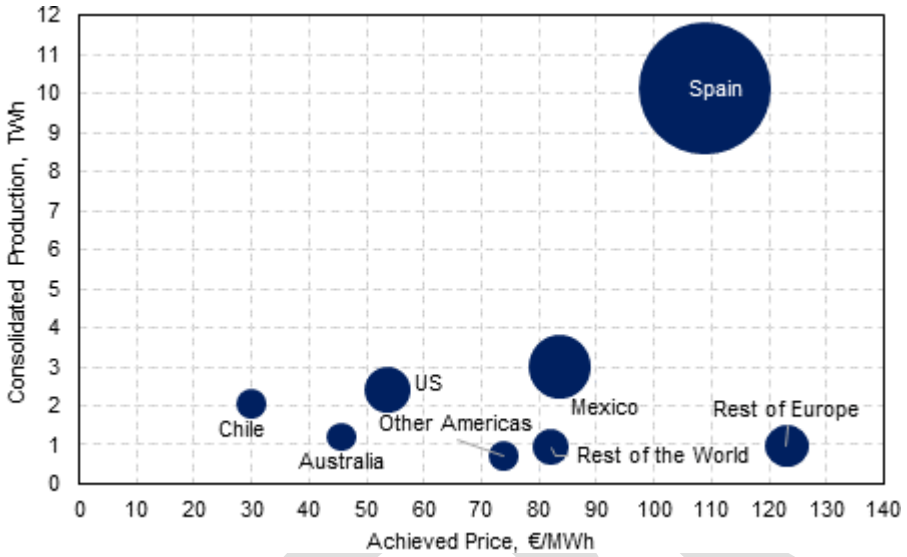


Source: Acciona

Similarly, the scale of Acciona's Energy activities have enabled it to achieve favourable prices on renewable generation across its key markets. In Spain, where the company exhibits 10.1TWh of consolidated production, it achieved an average price of EUR108.9/MWh in 2023. Within this price, EUR105.4/MWh was achieved via the market price and appropriate hedging, alongside an uplift from regulatory banding and income.

Favourable Generation Prices Achieved By Acciona Across Key Markets

Acciona - Average Achieved Generation Price, Consolidated Production, Generation Revenues (2023)

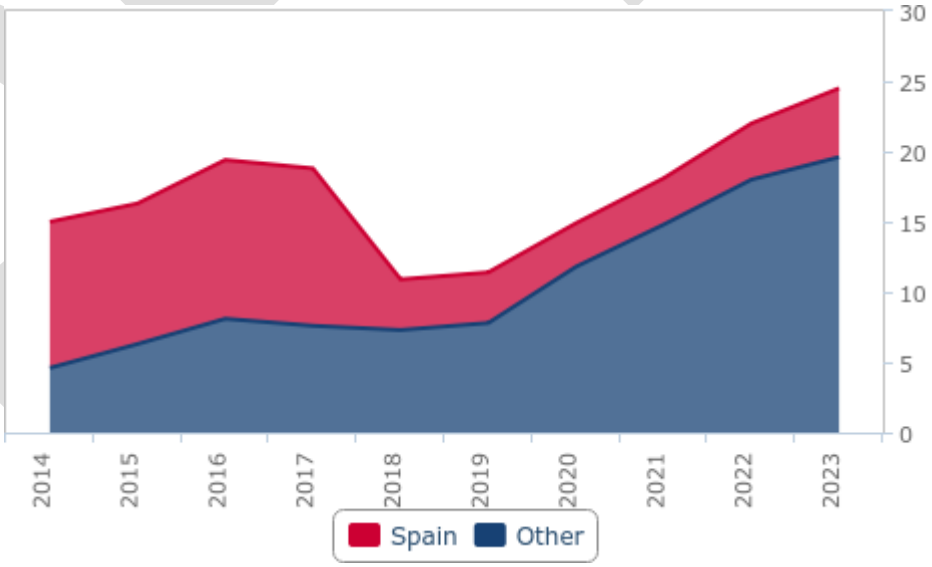


Note: Bubble size denotes generation revenues by market. Values range from EUR55mn to EUR1,105mn. IFRS results. Figures according to segment reporting. Source: Acciona

As of 2023, Acciona disclosed an order backlog in its Infrastructure segment totalling EUR24.5bn, a record high, split EUR4.9bn within Spain and EUR19.6bn across other markets. Within this headline figure, eur17.5bn relates to Construction, EUR4.5bn to Water, EUR1.6bn to Concessions, and EUR.9bn to Other Activities.

Order Backlog At Record High, Driven By Orders Outside Of Spain

Acciona - Order Backlog, EURbn (2014-2023)



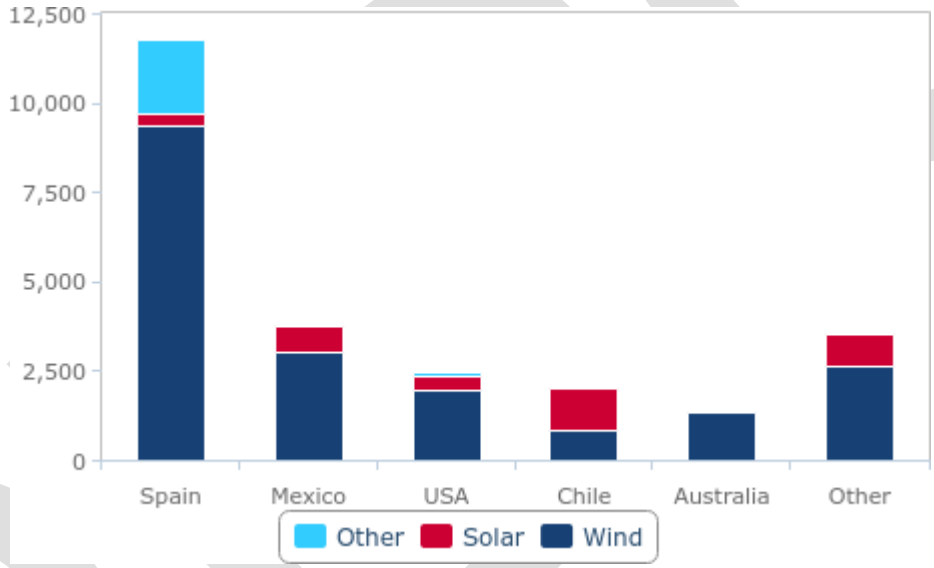
Source: Acciona

Given the global extent of authorities seeking to reduce their greenhouse gas emissions in the long-term, Acciona's outlook also involves continued expansion into new markets. This has seen the company's Energy segment enter new markets, such as Thailand and the Philippines, while re-entering India, Croatia, Canada and South Africa during 2023.

Though a relatively small source of Acciona's current revenue, the aforementioned need for desalination capacity additions in the GCC leads us to expect this to become a larger source of revenue for the company given its expertise in the execution of reverse osmosis desalination projects. As the risk of water scarcity increases, there will be increased investment in the water sector from humanitarian and multilateral organisations because of the risk of a lack of clean water and the increased political risk that comes with it. GCC states will remain feasible markets for the construction of desalination infrastructure; largely due to the GCC states' ability to afford the prohibitive cost of desalination plants.

Spain Accounts For Bulk Of Acciona's 24,894GWh Production

Acciona - Total Production By Type, GWh (2023)



Source: Acciona

Group Income Statement

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	6,499	6,454	5,977	7,254	7,510	7,191	6,482	8,104	11,195	17,021
Cost Of Goods Sold	-1,854	-1,830	-1,595	-1,976	-2,170	-2,021	-2,216	-1,980	-3,483	-5,853
Operating Income	572	627	988	720	757	699	625	829	1,333	1,251
Taxes	-70	-83	-34	-105	-136	-147	-100	-171	-254	-198
Net Income	207	236	374	251	372	398	417	404	614	621
Operating Margin, %	*8.8%*	*9.7%*	*16.5%*	*9.9%*	*10.1%*	*9.7%*	*9.6%*	*10.2%*	*11.9%*	*7.4%*
Net Margin, %	*3.2%*	*3.7%*	*6.3%*	*3.5%*	*5.0%*	*5.5%*	*6.4%*	*5.0%*	*5.5%*	*3.7%*
Order Backlog, EURbn	*15.0*	*16.0*	*19.0*	*19.0*	*11.0*	*11.0*	*14.9*	*18.1*	*22.0*	*24.5*

Note: IFRS Results. Values in EURmn unless otherwise stated. Source: Acciona

Group Balance Sheet

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Inventories	1,043	740	783	821	914	1,248	1,230	1,210	1,386	3,067
Trade And Other Receivables	1,815	1,612	1,723	1,892	1,701	2,091	2,252	2,731	3,340	4,405
Total Current Assets	5,372	4,893	4,723	5,963	4,936	6,038	6,887	7,236	8,190	13,282
Intangible Assets, Property, Plant And Equipment	8,733	7,664	7,966	6,640	6,736	7,703	7,873	8,659	10,198	13,245
Goodwill	79	79	79	186	198	233	230	249	249	1,369
Total Non-Current Assets	10,771	10,885	12,685	11,184	10,002	11,311	11,320	12,367	14,405	18,368
Total Assets	16,143	15,778	17,408	17,147	14,938	17,349	18,207	19,603	22,595	31,650
Trade And Other Accounts Payable	2,558	2,025	2,297	2,199	2,459	2,604	2,953	3,148	3,889	6,958
Total Current Liabilities	4,611	4,120	4,471	5,107	5,574	6,162	7,342	6,914	7,824	12,264
Total Non-Current Liabilities	7,919	7,903	8,839	8,077	5,869	7,547	7,153	7,131	8,467	12,535
Total Equity	3,613	3,755	4,098	3,963	3,495	3,640	3,711	5,557	6,303	6,851
Total Liabilities And Equity	16,143	15,778	17,408	17,147	14,938	17,349	18,207	19,603	22,595	31,650

Note: IFRS Results. Values in EURmn. Source: Acciona

Group Cash Flow Statement

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Cash Flow From Operating Activities	810	683	823	491	636	716	968	574	1,648	1,695
Cash Flow From Investment Activities	-151	-167	-626	-588	700	-968	-511	-1,087	-1,944	-3,208
Cash Flow From Financing Activities	-495	-382	-229	-58	-891	683	-198	424	338	2,867
Cash Flow For The Period	163	133	-32	-156	445	431	259	-89	42	1,354
Free Cash Flow	*390*	*477*	*33*	*-278*	*-9*	*-600*	*62*	*-374*	*-547*	*-1,199*

Note: IFRS Results. Values in EURmn. Source: Acciona

Key Financials By Segment

	2019	2020	2021	2022	2023
Revenue					
Energy	2,405	1,769	2,472	4,351	3,547
Infrastructure	5,034	3,928	4,870	6,016	7,723
Nordex					6,489
Other Activities	362	952	1,056	1,142	1,216
Operating Income					
Energy	441	543	695	1,225	916
Infrastructure	182	89	86	117	189
Nordex					-186
Other Activities	79	-10	38	-8	-34
Operating Margin, %					
Energy	*18.3%*	*30.7%*	*28.1%*	*28.2%*	*25.8%*
Infrastructure	*3.6%*	*2.3%*	*1.8%*	*1.9%*	*2.4%*
Nordex					-2.9%
Other Activities	*21.8%*	*-1.0%*	*3.6%*	*-0.7%*	*-2.8%*

Note: IFRS Results. Figures according to segment reporting. Values in EURmn unless otherwise stated. Source: Acciona

Construction Key Players: CRH

Overview

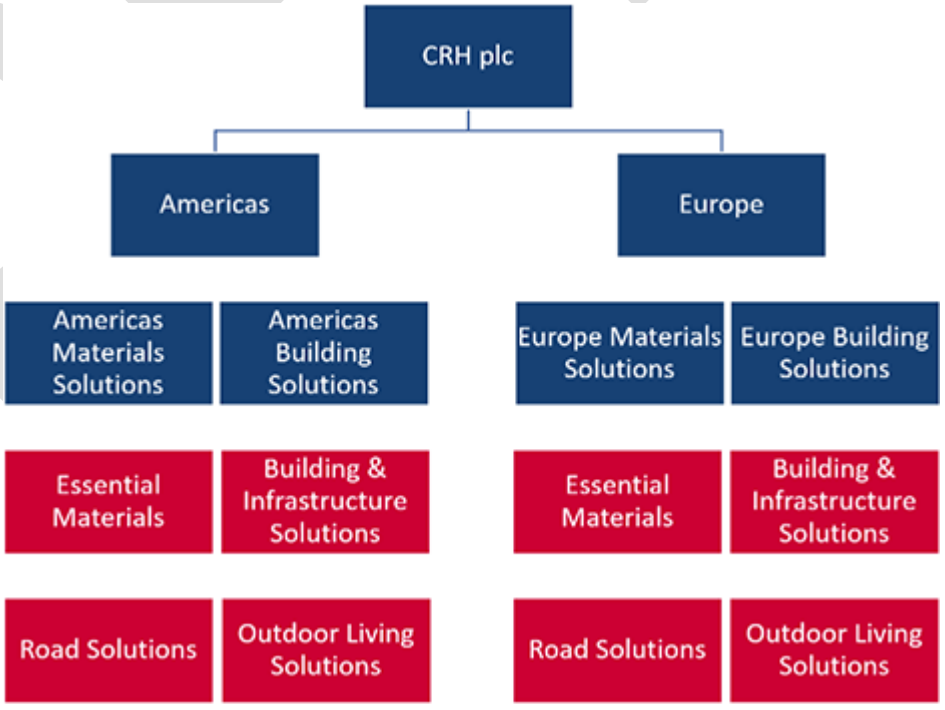
CRH is an Ireland-based construction and building materials company and is among the largest suppliers of building materials globally. Founded in 1970 via the merging of Cement Limited and Roadstone Limited, the company employs around 79,000 persons across 29 markets.

CRH operates across 4 segments, split both by geographic region and by the nature of the company's operations:

- **Americas Materials Solutions:** The provision of building materials, including aggregates, cement, ready mixed concrete and asphalt, for the construction and maintenance of infrastructure, residential and non-residential buildings. This segment also undertakes paving and construction services.
- **Americas Building Solutions:** The provision of building solutions for civil infrastructure and outdoor living, including water, energy, transport and telecommunications infrastructure.
- **Europe Materials Solutions:** The provision of building materials, including aggregates, cement, readymixed concrete and asphalt, for the construction and maintenance of infrastructure, residential and non-residential buildings. CRH's activities in Australia, Brazil and the Philippines are also accounted for within this segment.
- **Europe Building Solutions:** The provision of building solutions for civil infrastructure, residential and non-residential buildings and outdoor living.

Prior to January 1 2023, CRH operated across 3 segments; Americas Materials, Europe Materials and Building Products. Similarly, effective January 1 2023, the company transitioned from International Financial Reporting Standards (IFRS) to US Generally Accepted Accounting Principles (US GAAP).

CRH - Company Structure



Source: CRH

CRH's supply of materials and building products covers 5 overarching areas:

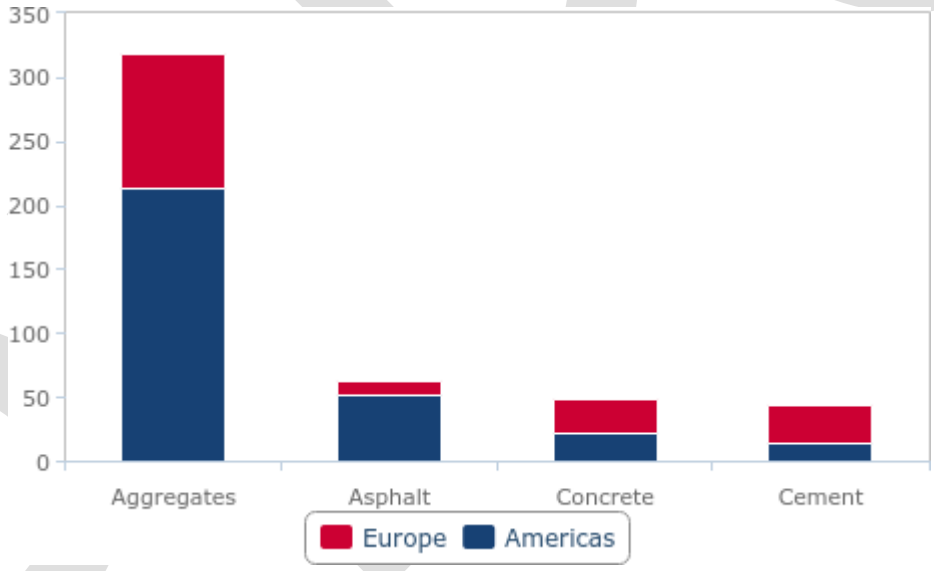
- Aggregates
- Cement
- Concrete
- Asphalt
- Building Products

CRH's materials activities are undertaken across 1,235 locations, covering 226,153 hectares of owned land and 97,046 of leased land. The bulk of CRH's locations involve aggregate extraction; 1,161 properties covering 189,361 of owned land and 91,283 of leased land.

In addition to these materials and products, CRH is in the process of exiting its lime operations in Europe, having announced an agreement to divest these operations to SigmaRoc in November 2023. The full divestment of CRH's lime operations is expected to complete by the end of 2024.

Aggregates The Key Composite Material For CRH

CRH - Annualised Materials Sales Volume, mn tonnes (2023)

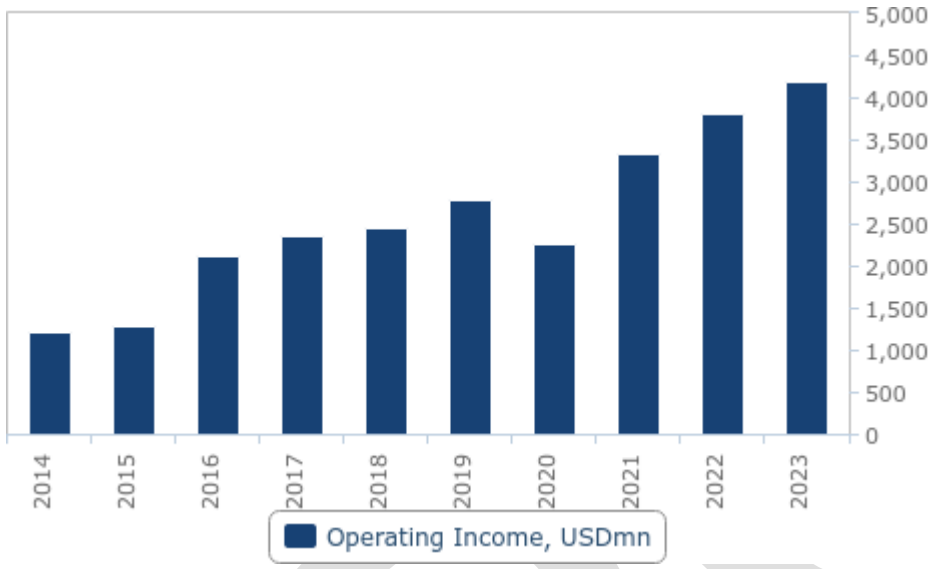


Source: CRH

CRH's latest full-year results, for the year ended 31 December 2023, show that the company reported operating income of USD4,186mn, up 9.9% from USD3,809mn in 2022.

Solid Expansion In Operating Income Over Previous Decade

CRH - Operating Income, USDmn

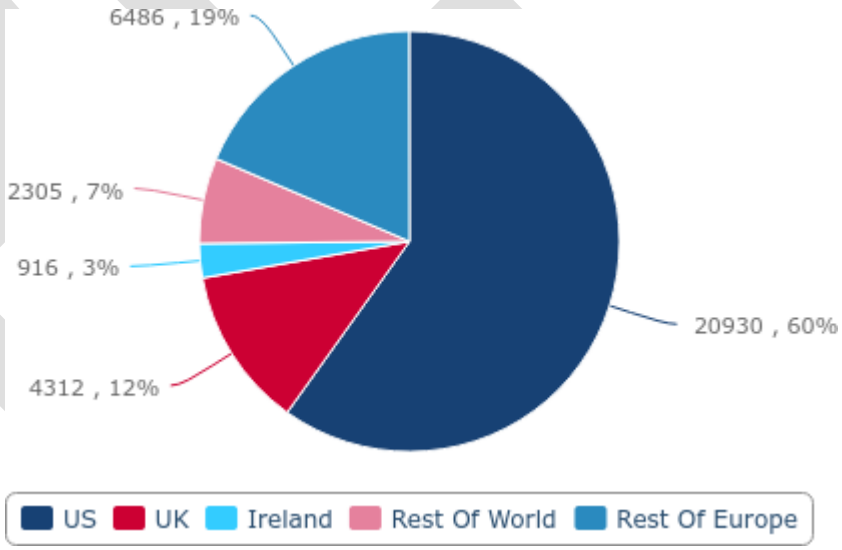


Note: IFRS results for periods to Dec 31 2022, US GAAP results for periods on and after Jan 1 2023. Source: CRH

Though CRH's operations began in Ireland and diversified across other Western Europe markets shortly after, the company has also been present in the United States for the majority of its existence; CRH entered North America via the acquisition of a US-based concrete products company in 1978. Reflective of CRH's global expansion since its founding, Ireland hosted just 2.6% of CRH's revenue in 2023.

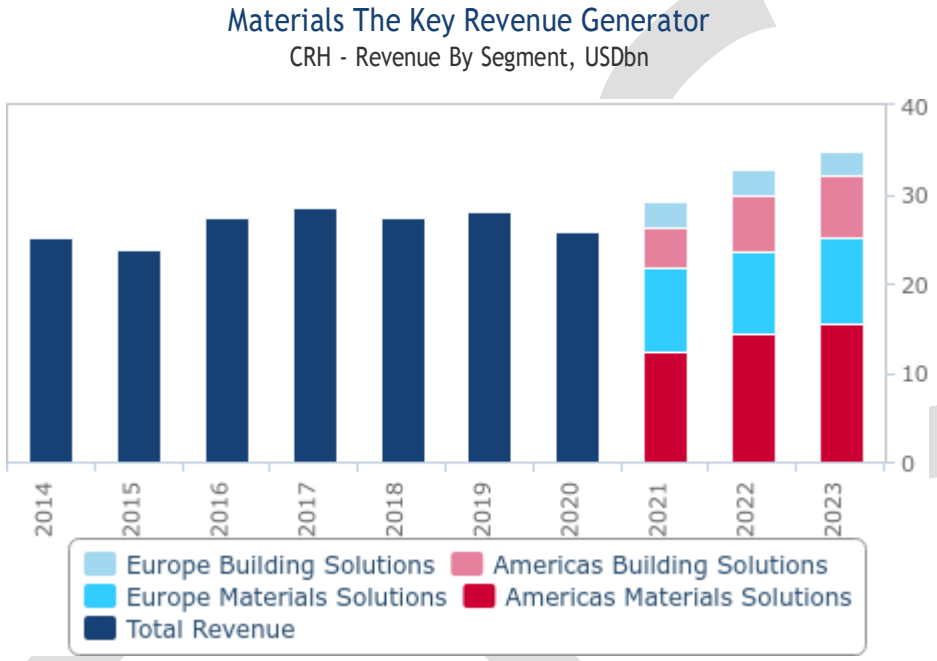
Longstanding Presence In US Construction

CRH - Revenue By Market, USDmn & % Of Total (2023)



Note: US GAAP results. Source: CRH

In terms of revenue, Americas Materials Solutions is the dominant revenue generator among its current 3 segment structure. In 2023 this segment reported USD15.5bn of revenue, ahead of Europe Materials Solutions which reported USD9.7bn during the period. Noting the company's restated segment information for 2021 and 2022, Americas Materials Solutions typically accounts for around 43% of CRH's total revenue generation in a given year.



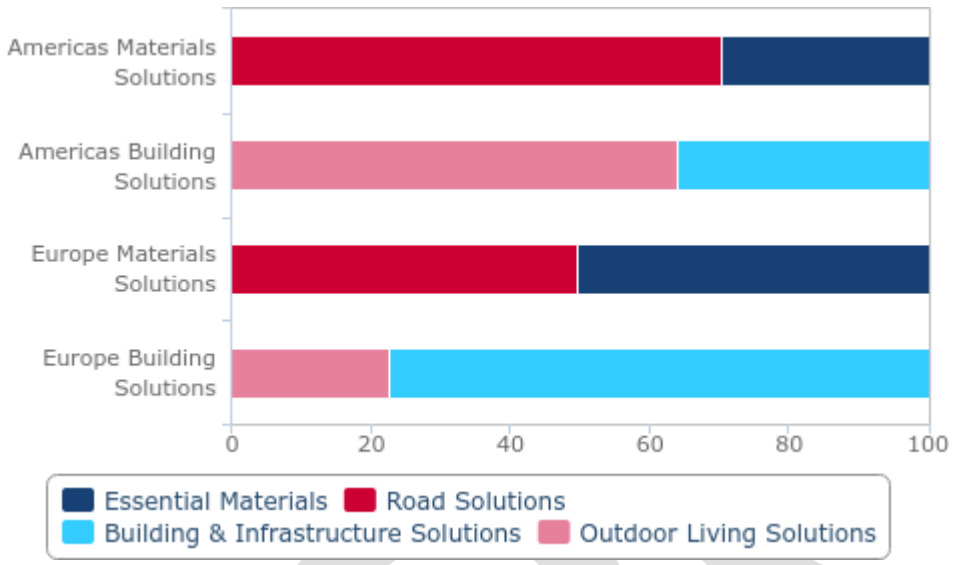
Note: CRH transitioned to its current 4 segment structure as of Jan 1 2023; segment information for 2021 and 2022 are restated. IFRS results for periods to Dec 31 2022, US GAAP results for periods on and after Jan 1 2023. Source: CRH

Within each of its 4 segments, CRH further disaggregates its revenue by principal activity and product; the company's two Materials Solutions segments are disaggregated into Essential Materials and Road Solutions, while its two Building Solutions segments are disaggregated into Building & Infrastructure Solutions and Outdoor Living Solutions. This enables assessment of the company's vertical integration, for example between its asphalt production and its road construction activities, or between its provision of drainage systems and hardscape products.

For example, in Americas Materials Solutions, Road Solutions typically generates the majority of the segment's revenue. In 2023, Road Solutions accounted for USD10.9bn of revenue, equivalent to 70.3% of the segment's revenue, reflecting CRH's position as the largest road paver in North America.

High Share Of Revenue For Roads Works Via Americas Materials Segment

CRH - Revenue By Principal Activities And Products, % (2023)



Note: US GAAP results. Source: CRH

Strategy

Though CRH's operations are tilted towards upstream activities in the construction industry, the company's presence across all phases of the construction and infrastructure lifecycle ensures high vertical integration. CRH's stated strategy emphasises the intrinsic value of its assets, such as tangible materials reserves and intangible intellectual property, along with its management's ability to apply these assets and deliver construction and infrastructure assets. The company therefore exhibits a competitive advantage by offering the raw materials, construction products and technical expertise to deliver a variety of large-scale construction activities.

In part due to its scale and exposure to a range of end-users, CRH has achieved a steady expansion of its operating margin over the past decade. In 2023, the company exhibited an operating margin of 12.0%, up from 4.8% in 2014.

Near-Uninterrupted Margin Expansion Over Past Decade

CRH - Operating Margin, % (2014-2023)

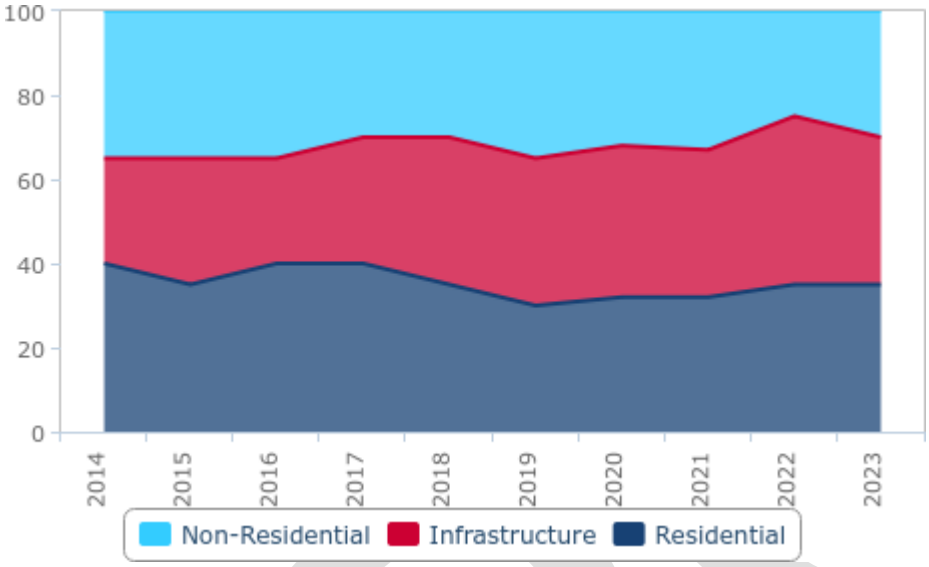
Note: IFRS results for periods to Dec 31 2022, US GAAP results for periods on and after Jan 1 2023. Source: CRH

CRH's diversified client base across the respective infrastructure, residential and non-residential sectors also ensures the company's diversification across the economic cycle. Its activities involving roads construction or water utilities, for example, entail a relatively longer cycle than its activities involving residential building construction or hardscapes. This diversification benefit is further compounded by the fact that CRH serves both public and private clients, leaving it relatively insulated from cyclical fluctuations in either private sector business activity or public investment levels.

Over the past decade, CRH has seen little movement in the relative share of its revenue generated by the three key sectors it serves. In 2023, CRH estimate that the infrastructure sector accounted for 35% of its revenue generation, alongside the residential and non-residential sectors accounting for 35% and 30% respectively.

Company Remains Well-Diversified Among Its End-Markets

CRH - Revenue By Sector, % (2014-2023)



Note: IFRS results for periods to Dec 31 2022, US GAAP results for periods on and after Jan 1 2023. Source: CRH

Undertaking M&A is a core feature of CRH's strategy and is typically undertaken to deepen its presence in its existing markets and for greater vertical integration. Typically, this entails bolt-on acquisitions of small to medium-sized businesses and portfolios of materials assets, however CRH has also previously undertaken M&A to meaningfully alter the size and scope of its activities. In 2015, for example, CRH completed the acquisition of Tarmac and other materials assets from Lafarge and Holcim Cement, following the latter two's merger. As a direct result of the transaction, CRH doubled its cement production volumes and became the third-largest building materials company globally.

CRH - Key Brands & Subsidiaries

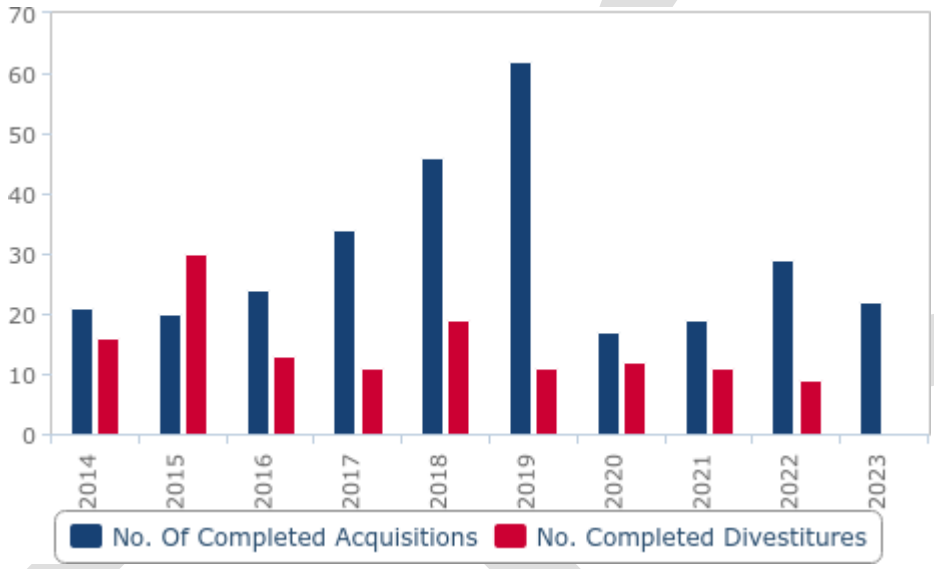
Essential Materials	Road Solutions	Building & Infrastructure Solutions	Outdoor Living Solutions
Adbri	Masfalt	Betonelment	Oldcastle APG
Ash Grove	Michigan Paving & Materials	Cubis	Belgard
Dufferin Aggregates	Midsouth Paving	Leviat	Barrette Outdoor Living
Irish Cement	Northstone	Martin Enterprises	Calstone
Mulzer Crushed Stone	Staker Parson	National Pipe & Plastics	Techniseal
Preferred Materials	Texas Materials	Normandy Products Company	Pebble Technology
Tarmac	W-L Construction & Paving	Oldcastle Infrastructure	EP Henry
The Shelly Company			Sakrete
Tilcon			

Source: CRH

CRH's recent M&A has included its acquisition of a majority stake in Australia-based materials producer Adbri, effective July 1 2024, to complement CRH's growing activities in the market. Elsewhere, CRH acquired water product and services company Hydro International via its Oldcastle Infrastructure subsidiary in 2023, and in 2022 CRH acquired building products company Barrette Outdoor Living to enhance CRH's Americas Building Solutions segment.

Regular Bolt-On Acquisitions Across CRH

CRH - No. Of Completed Acquisitions And Divestitures (2014-2023)



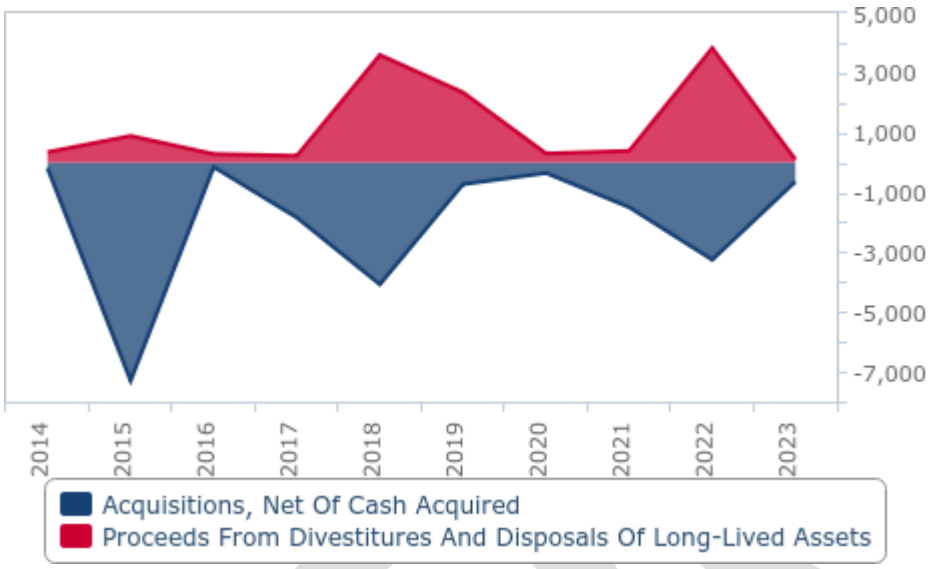
Source: CRH

The company also highlights its willingness to undertake divestiture activity among its overall portfolio of assets, whether amid its capital allocation strategy or in anticipation of shifting industry trends. Recent such activity includes CRH's ongoing divestment of its lime operations in Europe to SigmaRoc for a total consideration of USD1.1bn, its divestment in 2022 of its building envelope activities to KPS Capital Partners for a total consideration of USD3.8bn, and its divestment in 2019 of its Europe distribution activities for a total consideration of USD1.6bn.

Overall, 2023 saw CRH complete 22 acquisitions, having completed 294 acquisitions and 132 divestitures between 2014 and 2023.

Inorganic Growth Via M&A Remains Key To CRH's Strategy

CRH - Acquisitions And Proceeds From Divestitures And Disposals, USDmn

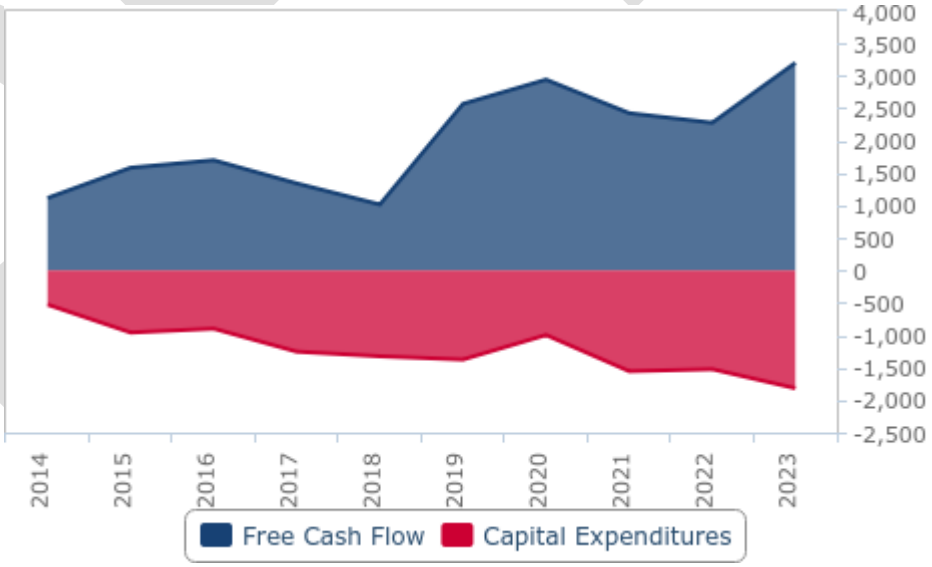


Note: IFRS results for periods to Dec 31 2022, US GAAP results for periods on and after Jan 1 2023. Values in USDmn. Source: CRH

As a result, CRH's ability to generate adequate free cash flow is critical for the company to realise its aims to undertake appropriate M&A and to finance capital expenditures. In 2023, CRH generated USD3.2bn of free cash flow, up 41% from USD2.3bn during 2022. Capital expenditures in 2023, meanwhile, were USD1.8bn from USD1.5bn in 2022.

Solid Free Cash Flow Supports Capex And M&A

CRH - Free Cash Flow, Capital Expenditures, USDmn (2014-2023)



Note: IFRS results for periods to Dec 31 2022, US GAAP results for periods on and after Jan 1 2023. Values in USDmn. Source: CRH

Exemplifying CRH's efficiency in generating free cash flow to realise its strategic aims, we highlight the steady overall rise in the company's free cash flow margin over the past decade. In 2023, CRH exhibited a free cash flow margin of 9%, following a steady upward rise from 4% in 2014.

CRH Achieved Steady Expansion In Free Cash Flow Margin Over Past Decade

CRH - Free Cash Flow Margin, % (2014-2023)

Source: CRH

Sustainability

The high level of emissions entailed in construction materials, and in the construction industry generally, will ensure that sustainability-related efforts remain central to CRH's overall strategy in the long-term. The success of the low carbon energy transition is, ultimately, contingent on the timely decarbonisation of construction and infrastructure. The UN Environmental Programme estimates that, in 2022, emissions in the buildings and construction sector accounted for 37% of global greenhouse gas (GHG) emissions, of which 7% were attributed to construction materials.

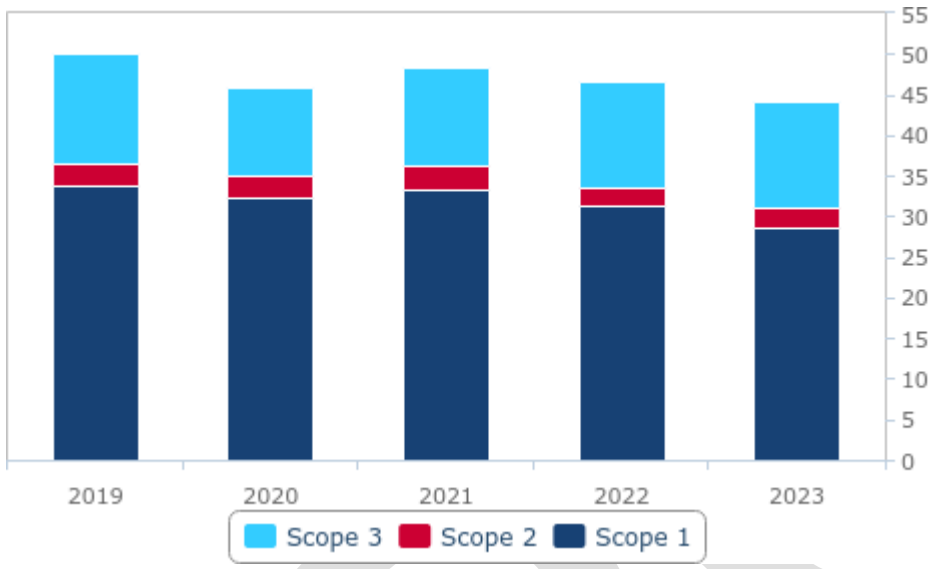
CRH maintains several overarching decarbonisation targets regarding its medium and long-term emissions reduction:

- 30% reduction in absolute Scope 1, 2 and 3 CO_2 emissions by 2030, relative to 2021 levels
- 33.5% reduction in Scope 1 and 2 GHG emissions per tonne of cementitious product by 2030, relative to 2021 levels
- 42% reduction in absolute Scope 1 and 2 GHG emissions from other activities by 2030, relative to 2021 levels
- 23.5% reduction in Scope 3 GHG emissions from purchased clinker and cement per tonne by 2030, relative to 2021 levels
- Achieve company-wide net-zero GHG emissions by 2050

CRH reported combined Scope 1 and 2 emissions of 31.0mn tonnes of CO_2 in 2023, alongside Scope 3 emissions of 13.1mn tonnes of CO_2, totalling 44.1mn tonnes of CO_2 during the year. To realise the company's 2030 emissions reduction target, its total emissions would need to reduce by a further 10.3mn tonnes of CO_2 to reach 33.8mn tonnes.

Sizeable Emissions Reduction Ahead To Meet Medium-Term Targets

CRH - Scope 1, 2 & 3 Emissions, Tonnes CO2e (2019-2023)



Note: Scope 2 emissions according to market-based method. Source: CRH

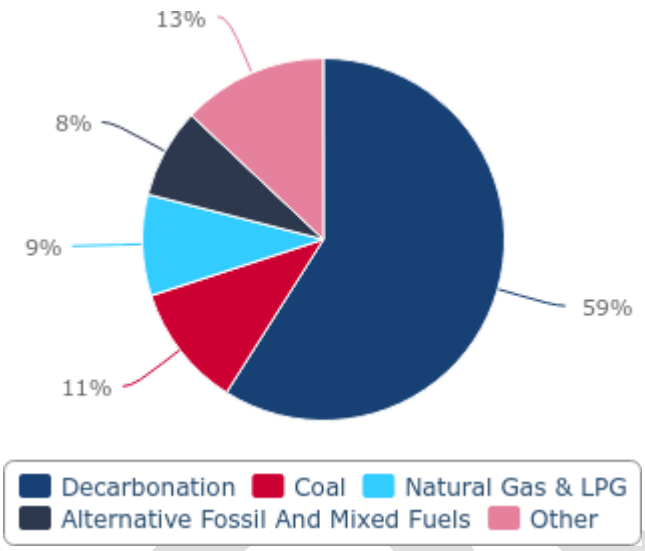
CRH's Scope 1 emissions are primarily process emissions entailed in the decarbonation of minerals, along with emissions from fuel combustion. In 2023, decarbonation accounted for 59% of CRH's Scope 1 emissions, when segmented by source, equivalent to around 17mn tonnes of CO_2. These emissions primarily arise during the production of clinker, the principal ingredient of cement, whereby the heating of raw materials to produce clinker also produces CO_2 emissions. The level of clinker content in cement is a key determinant of concrete's embodied carbon; substituting clinker can provide a direct means to reduce the embodied carbon in concrete.

As a result, cement accounted for 80% of CRH's Scope 1 emissions in 2023, when segmented by activity, equivalent to around 23mn tonnes of CO_2.

To this end, CRH is exploring the greater adoption of lower-emission materials to substitute for clinker. These include ground limestone, ground granulated blast-furnace slag (GGBS), fly ash, natural pozzolans, and calcined clay. For example, CRH has launched JURC ECO3; a lower-carbon cement product using calcined clay, KolmosBertta; a lower-carbon cement product using GGBS, and Portland Limestone Cement using ground limestone.

Decarbonation Of Minerals The Largest Source Of Scope 1 Emissions

CRH - Scope 1 Emissions By Source (2023)



Source: CRH

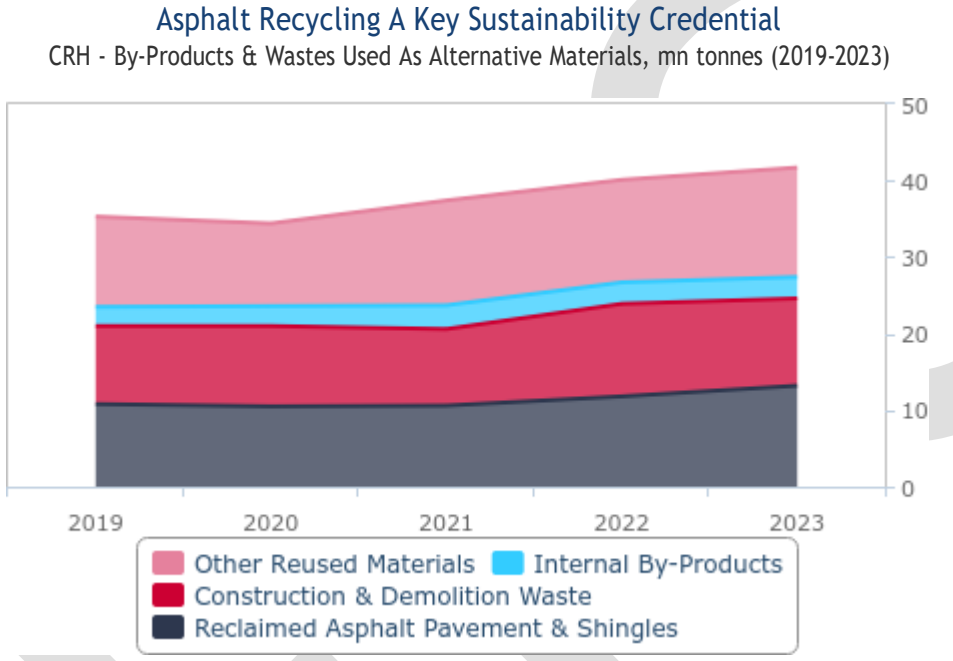
Naturally, the involvement of virgin materials in CRH's operations remains significant and poses a significant sustainability-related challenge for the company to overcome. In 2023, the company used 411mn tonnes of virgin materials, up from 391mn in 2022. While the company notes that it continues to seek greater substitution of virgin materials, its percentage share of substituted virgin materials has only slightly increased from 8% to 9% over the past five years. In 2023, this equated to 41.7mn tonnes of virgin materials being substituted.

Significant Shift Required To Substitute Virgin Raw Materials

CRH - Used And Substituted Virgin Raw Materials (2019-2023)

Source: CRH

That said, the company's position as the largest recycler of construction materials in North America enables it to integrate greater recycled materials volumes into its operations and the industry more broadly. Reclaimed asphalt pavement (RAP) and shingles (RAS) are notable recycled materials that CRH is adopting at scale, particularly in the US, by integrating these recycled materials into its roads construction activities. Similarly, CRH processes construction and demolition waste to produce recycled aggregates, while waste products such as fly ash and GGBS can be incorporated into CRH's aforementioned lower-emission cement products.



Source: CRH

Beyond emissions reduction within CRH's internal operations, the scale of its position within the construction and infrastructure industry offers it the potential to influence the direction and pace of broader decarbonisation efforts. This can entail the provision of lower-emission materials and products, utility infrastructure systems with low operational emissions, and outdoor public infrastructure to promote low-emission travel.

Outlook

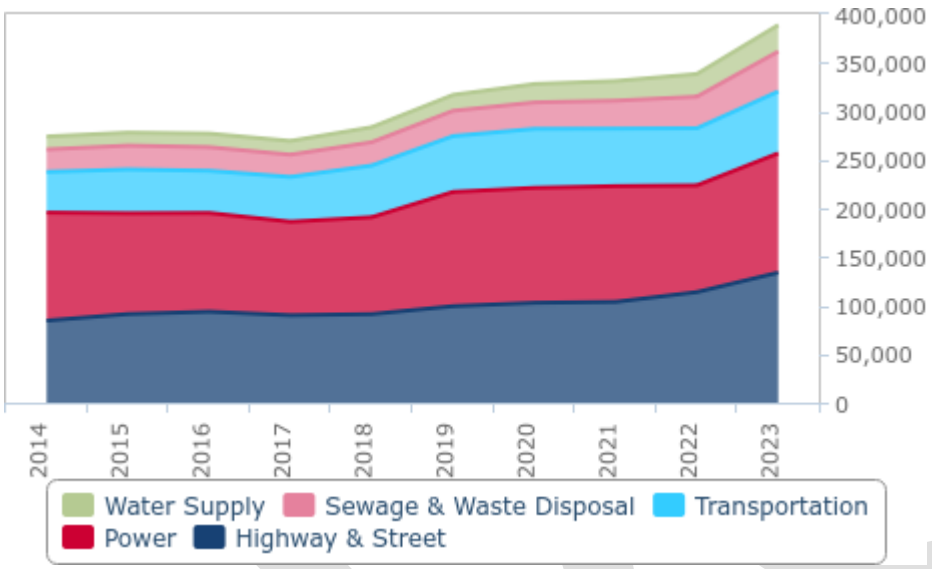
As one of the largest suppliers of construction materials globally, CRH commands a strong position to capitalise on robust construction demand in an industry already characterised by high barriers to entry. CRH's position as the largest building materials company in North America and Europe, in terms of volume, offers the company significant growth potential at a time when both regions are seeing significant public investment disbursed for construction and infrastructure development.

Across the 3 key sectors CRH serves, we highlight the broad investment tailwinds for the company to help facilitate:

- **Infrastructure:** The construction of greenfield infrastructure assets to facilitate the low-carbon energy transition, and the modernisation of existing infrastructure networks such as roads, highways, and water utilities.
- **Residential:** The construction of new and renovation of existing residential buildings, both to meet natural population growth and to mitigate existing shortages in residential building supplies.
- **Non-Residential:** The construction of commercial and industrial buildings to develop relatively nascent industries in CRH's key markets, including data centres, distribution facilities and manufacturing facilities.

Significant, Growing US Infrastructure Build-Out For CRH To Facilitate

US - Total Construction Spending By Infrastructure Sub-Sector, USDmn



Source: US Census Bureau

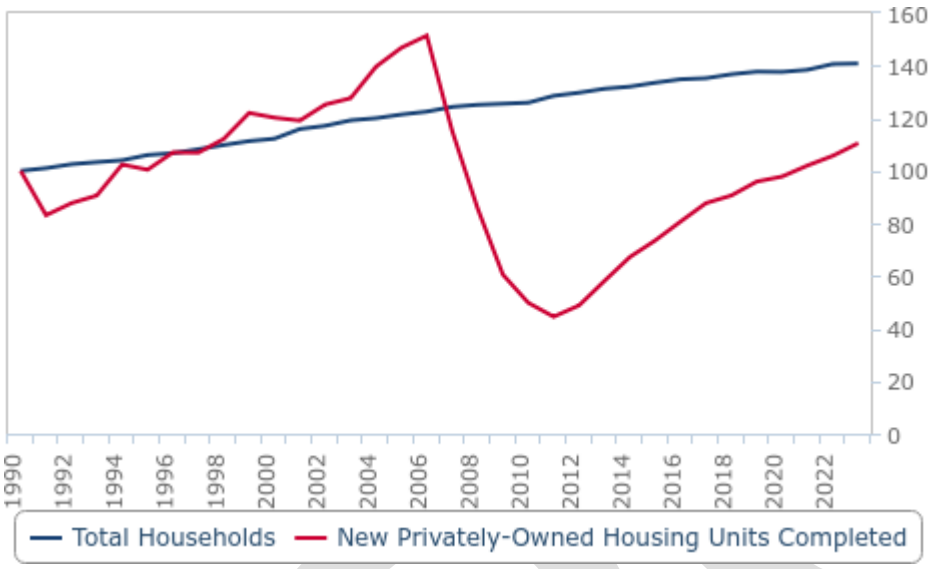
While CRH's activities in Western Europe remain substantial, the US' outsized contribution to the company's income generation will ensure that it remains the core market for CRH. This is reflective of the company's assets located in the US, its familiarity with the market, and crucially the growth prospects offered by the market's construction and infrastructure industry.

Ongoing public investment efforts, particularly the United States' Infrastructure Investment and Jobs Act (IIJA), entail significant funding for roads and bridges infrastructure for which CRH is well-placed to facilitate. Specifically, the IIJA includes around USD110bn for roads and bridges infrastructure. Additionally, the subsequent passage of the US' CHIPS and Science Act in 2022 entails targeted funding for manufacturing facilities and related non-residential buildings; familiar territory for CRH to support.

Following a period of excess supply in the US residential building market prior to the Global Financial Crisis, the market has since moved to a state of excess demand amid a subdued level of residential building construction, below the level of household formation. This has been further exacerbated amid the ongoing period of restrictive monetary policy in the US since early 2022, which has weighed on residential building starts, housing inventory, and housing affordability. Ultimately, the extent of the market's residential building shortage will ensure sustained demand across CRH's key activities, from its provision of materials and products for residential building construction through to its ancillary infrastructure activities.

Extent Of US Housing Shortage A Key Long-Term Growth Tailwind

US - New Privately-Owned Housing Units Completed, Total Households (1990 = 100)



Source: US Census Bureau

Regarding the scale and longevity of CRH's key assets, namely its materials reserves and facilities, the company maintains sufficient capacity to meet the construction and infrastructure industry's long-term demands. Its 1,161 aggregate extraction locations, of which 686 are in the US, achieved an annualised extraction of 211.6mn tons during 2023. Taking the average of the past three years' annualised extraction, this leaves CRH's aggregate extraction locations in the US with an estimated 85 years to depletion.

CRH - Aggregates Quarries/Pits

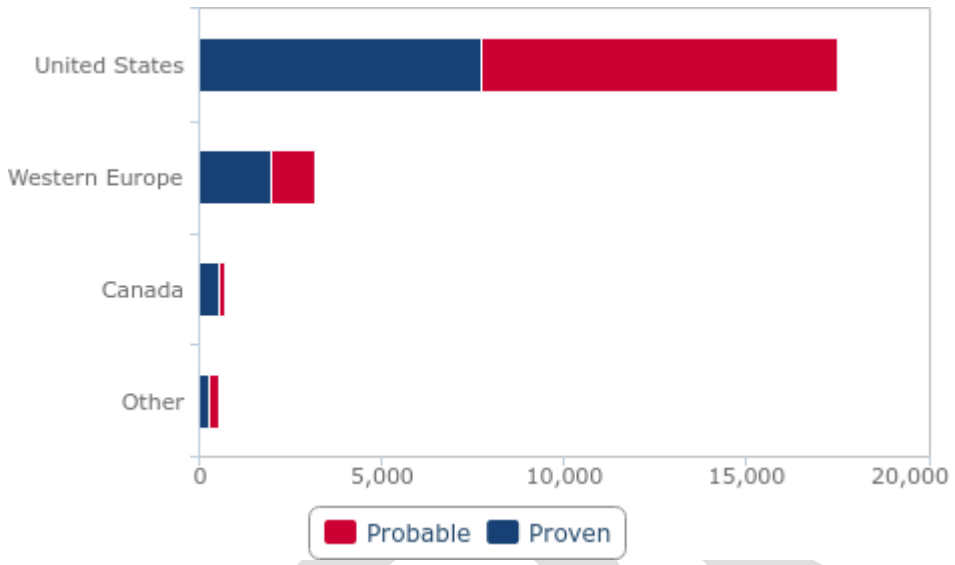
				Annualised Extraction, mn tonnes			
Market	No. Of Quarries/ Pits	Owned Surface Acreage, Acres	Leased Surface Acreage, Acres	2021	2022	2023	Years To Depletion
United States	686	132,342	63,667	195.3	203.2	211.6	85
Western Europe	398	39,381	24,224	87.8	85.8	79.6	38
Central And Eastern Europe	40	2,768	1,235	11.4	11.3	10.9	43
Canada	36	14,870	1,717	19.2	20.5	20.3	37
Philippines	1	-	440	-	-	-	-

Note: Figures as of December 31 2023. Source: CRH

CRH's reserves total 25.4mn tonnes, of which 21.8mn tonnes are aggregates. As with the company's materials extraction locations, the majority of its aggregate reserves are located within the US; 17.3mn tonnes of which 7.8mn are proven and 9.5mn are probable.

Bulk Of Aggregates Reserves In US

CRH - Aggregate Reserves By Region, mn short tonnes



Note: Figures as at December 31 2023. Source: CRH

Group Income Statement

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	25,124	23,760	27,437	28,492	27,449	28,132	25,888	29,206	32,723	34,949
Cost Of Revenue	-17,775	-16,331	-18,336	-19,096	-18,391	-18,859	-17,323	-19,379	-21,908	-22,986
Gross Income	7,349	7,429	9,101	9,396	9,058	9,273	8,565	9,827	10,815	11,963
Operating Income	1,218	1,294	2,112	2,367	2,446	2,793	2,263	3,331	3,809	4,186
Net Interest Income	-399	-366	-369	-331	-360	-365	-463	-315	-279	-170
Taxes	-235	-306	-477	-62	-467	-534	-445	-650	-762	-925
Net Income	776	715	1,316	2,047	2,889	1,738	1,009	2,686	3,889	3,072
Gross Margin, %	*29%*	*31%*	*33%*	*33%*	*33%*	*33%*	*33%*	*34%*	*33%*	*34%*
Operating Margin, %	*5%*	*5%*	*8%*	*8%*	*9%*	*10%*	*9%*	*11%*	*12%*	*12%*
Net Margin, %	*3%*	*3%*	*5%*	*7%*	*11%*	*6%*	*4%*	*9%*	*12%*	*9%*

Note: IFRS results for periods to Dec 31 2022, US GAAP results for periods on and after Jan 1 2023. Values in USDmn unless otherwise stated. Source: CRH

Group Balance Sheet

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Raw Materials	741	908	866	1,064	1,316	1,283	1,403	1,737	1,988	1,865
Work In Process	97	115	99	111	125	144	144	136	181	186
Finished Goods	1,897	2,098	2,135	2,089	2,065	1,653	1,570	1,738	2,025	2,240
Total Inventories	2,735	3,122	3,100	3,264	3,505	3,080	3,117	3,611	4,194	4,291
Total Current Assets	10,560	10,211	9,908	11,747	10,892	17,258	14,977	14,044	14,833	16,885
Net Property, Plant & Equipment	8,981	14,193	13,384	15,742	18,050	19,574	19,317	19,502	17,768	17,841
Intangible Assets	188	450	385	371	363	382	341	397	1,088	1,041
Goodwill	4,862	8,047	7,801	8,301	9,294	9,093	9,032	9,451	9,199	9,158
Total Non-Current Assets	16,081	24,568	23,414	26,283	29,388	30,354	29,967	30,626	30,486	30,584
Total Assets	26,641	34,779	33,322	38,029	40,280	47,612	44,944	44,670	45,319	47,469
Total Current Liabilities	4,679	6,921	6,221	7,250	6,962	12,867	7,465	7,581	8,041	10,013
Total Non-Current Liabilities	9,622	13,141	11,869	12,773	14,361	15,111	17,131	16,175	14,546	16,168
Total Equity	12,340	14,717	15,233	18,005	18,958	19,634	20,348	20,914	22,732	21,288
Total Liabilities And Equity	26,641	34,779	33,322	38,029	40,280	47,612	44,944	44,670	45,319	47,469

Note: IFRS results for periods to Dec 31 2022, US GAAP results for periods on and after Jan 1 2023. Values in USDmn. Source: CRH

Group Cash Flow Statement

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Cash Flow From Operating Activities	1,694	2,562	2,340	2,189	2,246	3,881	3,938	3,979	3,800	5,017
Cash Flow From Investing Activities	-359	-8,177	-735	-2,685	-1,772	217	-1,060	-2,513	-917	-2,391
Cash Flow From Financing Activities	-332	4,753	-1,732	343	-226	-2,546	287	-3,107	-2,499	-2,380
Cash Flow For The Period	1,003	-862	-127	-153	248	1,552	3,165	-1,641	384	246
Free Cash Flow	*1,116*	*1,583*	*1,699*	*1,341*	*1,016*	*2,568*	*2,942*	*2,425*	*2,277*	*3,200*
Free Cash Flow Margin, %	*4%*	*7%*	*6%*	*5%*	*4%*	*9%*	*11%*	*8%*	*7%*	*9%*

Note: IFRS results for periods to Dec 31 2022, US GAAP results for periods on and after Jan 1 2023. Values in USDmn. Source: CRH

Infrastructure Key Players: EDF

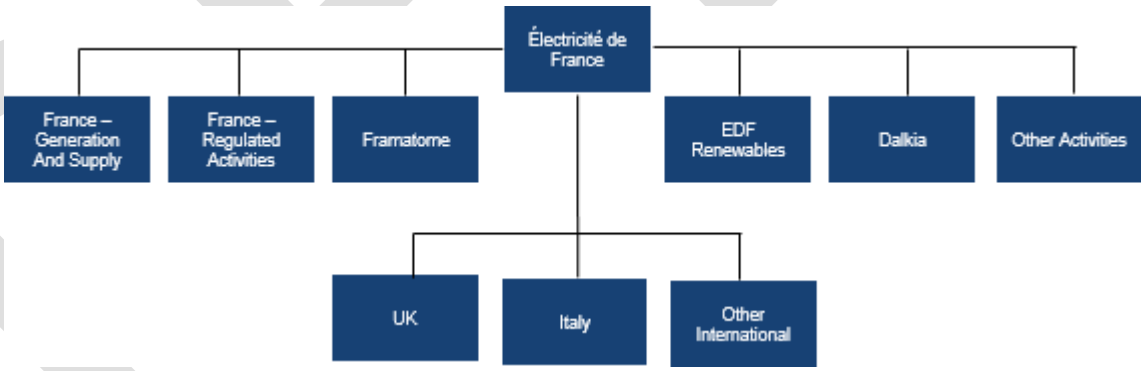
Overview

Électricité de France (EDF) is a France-based electric utility company, formed in 1946 and owned by the French government. The company employs almost 180,000 persons as of 2023, supplies around 34mn and 6.6mn customers with electricity and gas respectively, and is one of the largest producers of electricity globally.

EDF maintains nine business lines, segmented by both geography and activity:

- **France - Generation And Supply:** Energy production and sales activities undertaken in France-based energy companies within the EDF Group. This segment also includes downstream activities, including business-to-business and business-to-consumer activities.
- **France - Regulated Activities:** Activities undertaken by Enedis, Électricité de Strasbourg and EDF's island entities.
- **Framatome:** Activities undertaken globally by nuclear energy company Framatome; an entity majority-owned by EDF alongside Mitsubishi Heavy Industries.
- **UK:** Activities undertaken by UK-based energy company EDF Energy.
- **Italy:** Activities undertaken by Italy-based energy company Edison.
- **Other International:** Activities undertaken by EDF international, Luminus and other entities across Asia, Europe, Latin America and North America.
- **EDF Renewables:** Activities undertaken globally by EDF Renewables.
- **Dalkia:** Activities undertaken by heating and cooling networks company Dalkia.
- **Other Activities:** EDF Trading, EDF Investissements Groupe and other Group activities.

EDF - Company Structure

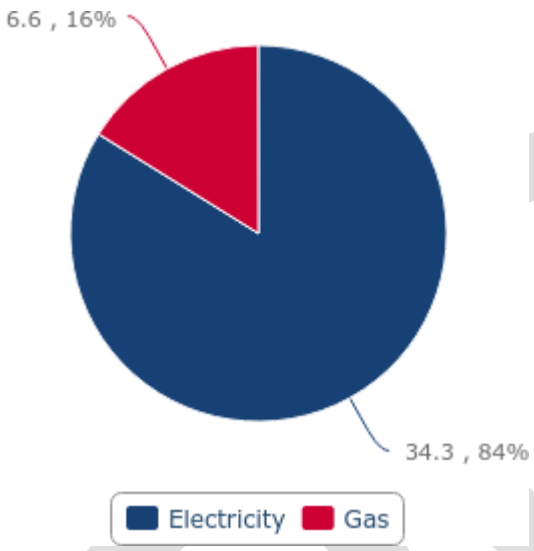


Source: EDF

Though EDF was founded as a state-owned Public Industrial and Commercial Establishment, the company was privatised in 2004 albeit with the government of France retaining a majority equity stake. However, amid an effort to ensure the financial viability of EDF and France's broader nuclear industry, the French Government announced its intention to renationalise the company in July 2022. Effective June 2023, the company returned to full state control.

Electricity Comprises The Bulk Of EDF's Customer Base

EDF - No. of Customers By Type, mn (2023)

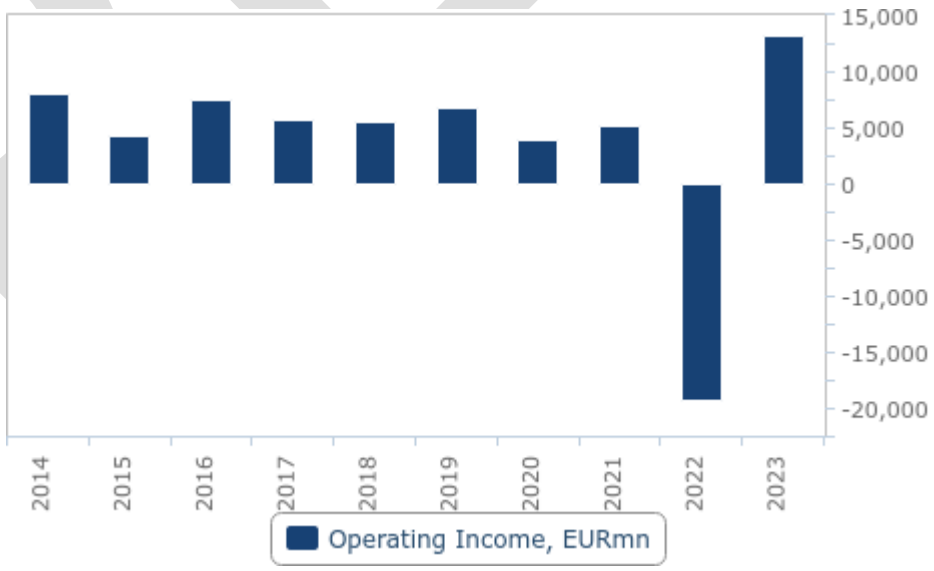


Source: EDF

EDF's latest full-year results, for the year ended 31 December 2023, show the company reported operating income of EUR13,174mn; a return to profitability after the company reported an exceptional operating loss of EUR19,363mn during 2022. The company's brief lossmaking period in 2022 was especially driven by a 173.2% y-o-y increase in fuel and energy purchases, which outstripped a 69.9% y-o-y increase in sales during the period. This partly stemmed from EDF's purchase obligations which effectively compelled EDF to purchase electricity at a time when electricity prices were elevated, along with an energy price cap for French households and a decline in EDF's nuclear output.

Return To Profitability Following Exceptional Operating Loss In 2022

EDF - Operating Income, EURmn (2014-2023)

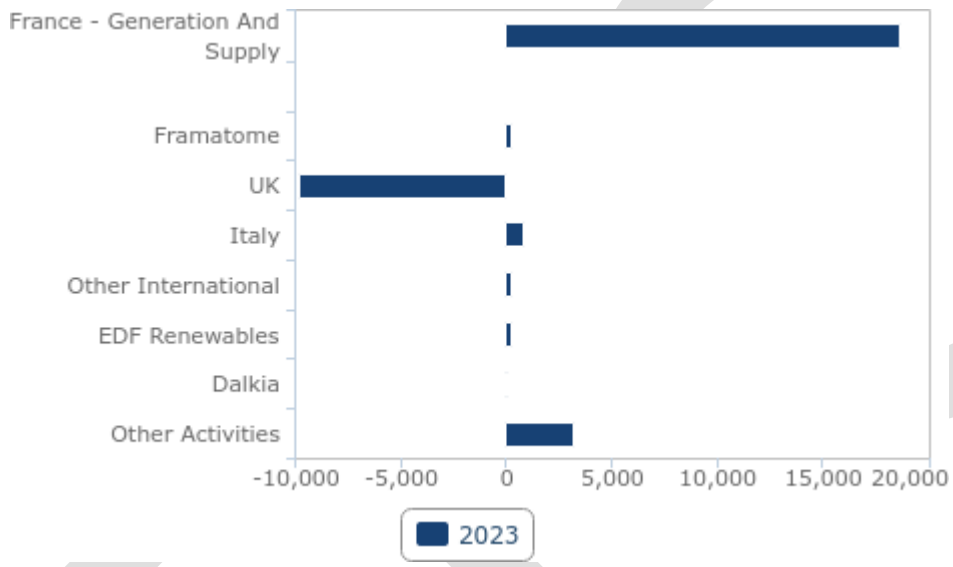


Note: IFRS results. Source: EDF, BMI

Within its 2023 operating income, EDF's activities under its France - Generation And Supply segment generated the bulk of its operating income; EUR18.7mn. While 7 of EDF's other segments also registered an operating profit during the year, the company's overall operating income was reduced following an -EUR9,823mn operating loss reported by its remaining United Kingdom segment amid an impairment loss on the Hinkley Point C power plant project.

Sizable EBIT From France Generation Offsetting UK Impairment

EDF - Operating Income By Segment, EURmn (2023)



Note: IFRS results. Source: EDF, BMI

Strategy

EDF's strategic advantage stems especially from its longstanding expertise in nuclear power, which leaves it highly embedded in France's energy system with the ability to earn regulated returns. The size, high output stability and the financial stability ensured by EDF's nuclear fleet underpins the company's long-term growth and capital investment planning, allowing it to develop low-emission power generation assets elsewhere, such as hydropower and non-hydropower renewables.

Two of the key factors relevant to EDF's earnings can be summarised as:

- **Generation And Supply:** The level of EDF's electricity generation and supply, and therefore the level of its installed capacity, directly determine its earnings. Maintaining and, where feasible, extending the useful life of its generation fleet is thus critical to ensuring EDF's long-term ability to generate and grow its revenue, alongside the construction of additional generation assets.
- **Regulatory Environment:** EDF's revenue generation is directly affected by the regulatory treatment of its tariffs, cash flows and assets, particularly in jurisdictions where the company generates regulated returns. Generally, utilities' regulatory environments seek to balance the costs faced by electricity consumers against the need to ensure the electricity supplier realises an adequate financial return to maintain and grow its asset base. The features of EDF's regulatory environment can, therefore, determine the company's ability to grow its revenue, to enact viable capital expenditures, and its competitive environment.

In 2023, EDF realised an operating margin of 9.4%. This was above the 6.1% average operating margin the company exhibited over the past decade, and well above its brief fall to a negative operating margin of -13.5% in 2022.

Operating Margin Back In Positive Territory

EDF - Operating Margin, % (2014-2023)

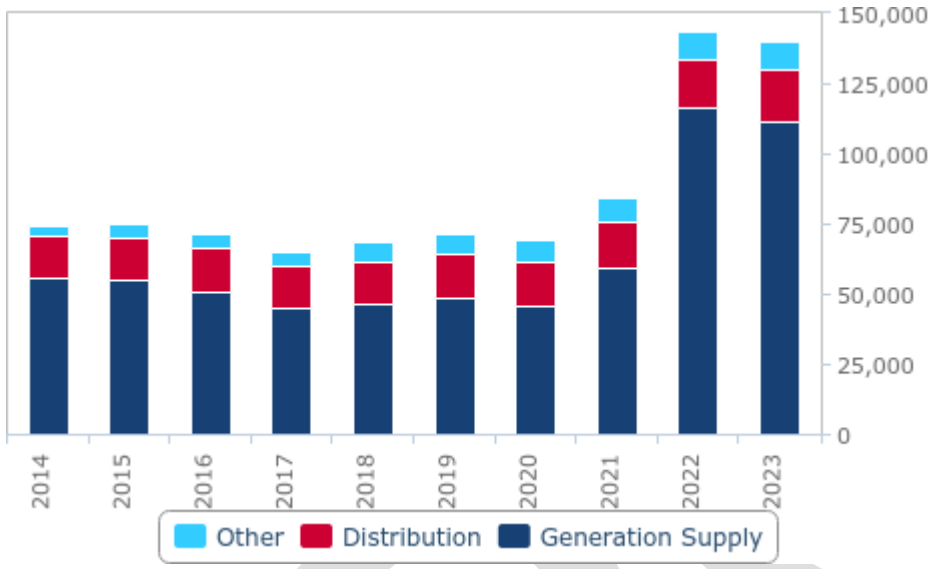
Note: IFRS results. Source: EDF, BMI

A key regulatory mechanism for EDF is France's Regulated Access to Incumbent Nuclear Electricity (ARENH), under which EDF's nuclear fleet operates. Implemented from 2011, ARENH provides electricity suppliers the right to purchase nuclear electricity generation from EDF at a regulated price and maximum annual volume determined by the French Energy Regulatory Commission (CRE). Since 2012, the regulated price has been fixed at EUR42/MWh, while the maximum annual volume was 100TWh until the end of 2019 before being raised to 150TWh. For context, EDF's annual nuclear output in 2023 was 320.4TWh.

We highlight that ARENH is due to end on December 31 2025, after which a replacement regulatory mechanism will enter force. At the time of writing, EDF has agreed an average price of EUR70/MWh for its nuclear output in a post-ARENH regulatory regime, that would extend to the entirety of EDF's nuclear output. In addition, this new mechanism would also entail price thresholds above which EDF would be compelled to redistribute revenue for any electricity sold above such thresholds. This agreement between EDF and the French government is currently subject to public consultation and would require EU approval.

Generation The Key Source Of Revenue

EDF - Revenue By Type, EURmn (2014-2023)



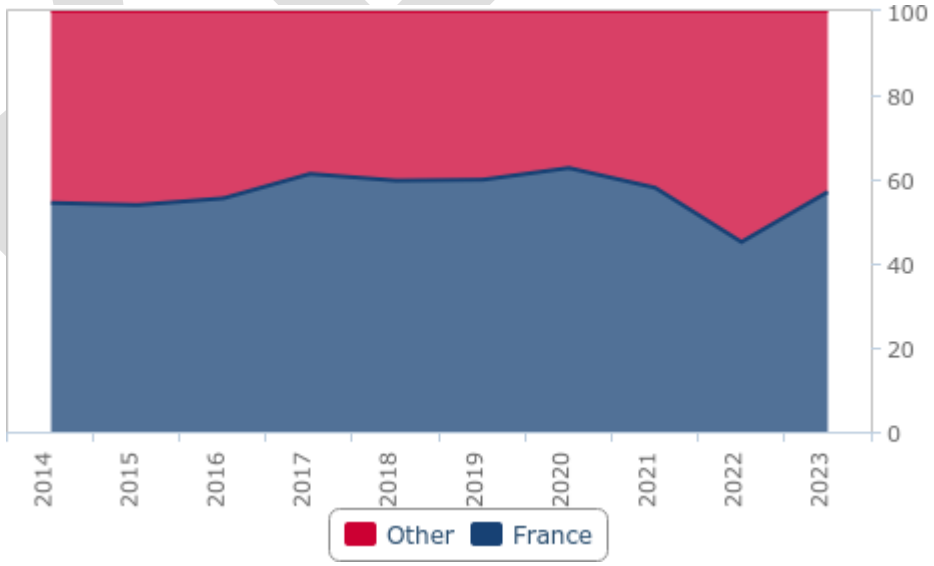
Note: IFRS results. Source: EDF, BMI

The stability of EDF's overall revenue generation is further bolstered by its entrenched position in its domestic market. Over the past decade, France has accounted for 57% of EDF's revenue in a given year. This share has remained largely stable, except for a brief fall to 45% during 2022 driven by the aforementioned energy price cap for French households and a decline in EDF's nuclear output in the market.

While the company continues to undertake activities internationally, the strategic importance of EDF to the French government and the long-lived nature of the company's nuclear fleet in France will ultimately ensure that this revenue split persists.

Significant France-Based Assets Ensure High Revenue Generation

EDF - % Of Group Revenue By Market (2014-2023)



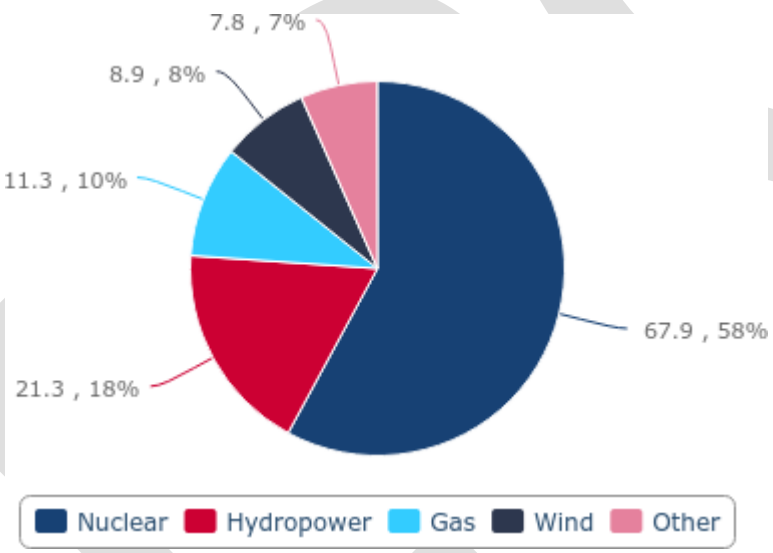
Note: IFRS results. Source: EDF, BMI

The dominance of nuclear in EDF's generation fleet is a significant strength for EDF's financial position as a source of baseload generation that entails limited variable costs. EDF's operational nuclear fleet spans 56 units in France, with a combined capacity of 61.4GW and an average age of 38 years.

The ability to feasibly extend the useful life of EDF's generation fleet is a key factor for the company's continued revenue generation. As such, the company undertakes work to extend the useful life of its existing nuclear fleet to at least an average age of 40 years. EDF's Grand Carénage programme, announced in 2011, encapsulates this work to refurbish the company's nuclear fleet. Currently in its second phase, EDF expects to enact EUR33bn of investment in the programme from 2022 to 2028. Again, while this programme entails sizable upfront capital investment, the variable costs of nuclear power remain low relative to other generation assets.

Nuclear The Majority Of EDF's Electricity Capacity

EDF - Installed Electricity Capacity By Type, GW (2023)



Source: EDF, BMI

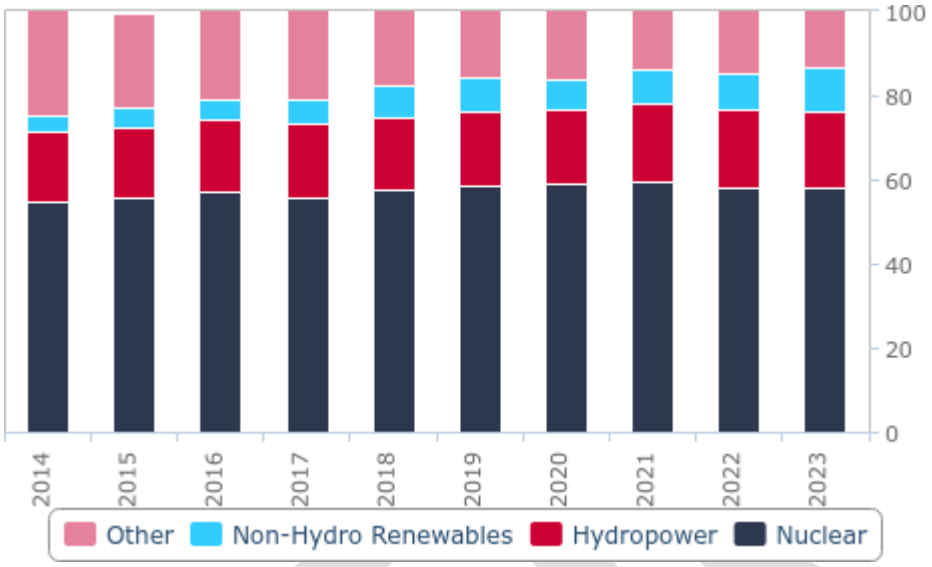
Beyond EDF's entrenched position within France, its means of expansion predominantly entails investment to deepen its presence in its existing markets. To ensure its continued alignment with the low-carbon energy transition, this has generally entailed investment in non-hydropower renewables assets such as wind and solar.

As of 2023, EDF operates 177.3GW of installed electricity capacity, of which 12.3GW are non-hydropower renewables. While this equates to only 10.5% of EDF's total electricity capacity, this segment has nonetheless seen solid growth over the past decade; in 2014, just 3.7% of EDF's electricity capacity was non-hydropower renewables.

Demonstrating the ability for EDF to diversify its geographic presence via renewables capacity installations, the company maintains both wind and power capacity across 15 markets aside from France. In the US, for example, EDF has 3.6GW of gross installed wind power capacity and is currently developing 1.5GW of offshore wind power capacity offshore from New York State. Elsewhere, in the UAE, EDF has 3.2GW of gross installed solar power capacity which includes the 2.1GW Al Dhafra solar power plant.

Non-Hydro Renewables A Small But Growing Segment

EDF - Installed Electricity Capacity By Type, % of total



Source: EDF, BMI

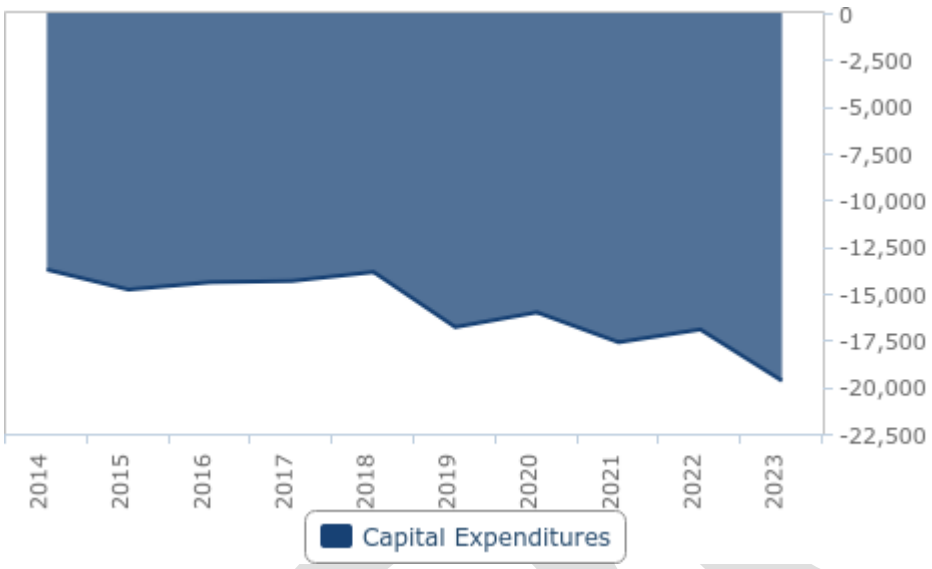
EDF's M&A activity has tended to involve bolt-on acquisitions, such as its recent acquisition of GE Vernova's steam nuclear activities. Completed in May 2024, GE Vernova undertakes the manufacturing of conventional island equipment for new nuclear power plants, with the transaction also including its Arabelle steam turbines and for first and second-generation European pressurised reactors (EPR and EPR2) and small modular reactors (SMR). Given EDF's small but growing activities regarding the deployment of EPR, EPR2 and SMR, EDF expects the acquisition offers a clear fit to provide expertise for a key growth area for the company.

EDF has historically completed larger transactions to deepen its presence in existing markets. 2009 saw EDF acquire nuclear power operator British Energy, having formally entered the UK electricity market in 2002. The acquisition helped propel EDF to become one of the so-called 'Big Six' largest retail gas and electricity suppliers in the UK.

In an example of EDF acquiring companies downstream in its value chain, February 2020 saw EDF acquire electric vehicle (EV) charging infrastructure provider Pod Point. The UK-based company supports EDF's Electric Mobility Plan, launched in 2018 to develop the company's EV charging infrastructure capabilities in the UK, France, Italy and Belgium; as of end-2023, EDF has deployed around 340,000 EV charging points. In Pod Point's case, EDF is seeking to complement its existing EDF Energy offering in the UK market, to offer favourable electricity tariffs for EV charging.

EDF's Capex Significant And Growing

EDF - Capital Expenditures, EURmn (2014-2023)



Note: IFRS results. Source: EDF, BMI

Outlook

EDF's continued effort to deploy renewable energy assets, alongside its continued baseload power generation, bodes well for the company's ability to directly facilitate the low carbon energy transition. Given EDF's longstanding expertise in nuclear power, the technology will remain at the core of the company's long-term growth prospects. This is despite periods of disagreement among European Union (EU) member states on the role, if any, for nuclear power in the low carbon energy transition. Ultimately, French authorities have proved successful in arguing that nuclear power will remain crucial to the bloc's energy mix and ensuring that nuclear, as with gas, is labelled under the EU Taxonomy as an environmentally sustainable activity. EDF is currently involved in the development of several new nuclear reactors, including at Flamanville 3 in France, Hinkley Point C and Sizewell C in the UK, and early-stage developments in the Czech Republic and Poland.

EDF's aforementioned effort to diversify its geographical presence via renewables capacity installations is also supportive for the company's outlook, particularly when targeting markets with greater economic growth prospects and thus greater electricity demand potential. At the time of writing, EDF maintains a target to reach 100GW of gross installed renewables capacity by 2030. This would largely be achieved via wind and solar power capacity installations, of which EDF currently has 20.7GW of gross installed renewables capacity.

EDF - Gross Installed Capacity By Market And Type, MW (2023)

Market	Wind	Solar
Belgium	325	-
Brazil	951	399
Canada	807	61
Chile	175	115
Egypt	-	167
France	2547	682
Germany	164	-
Greece	264	172
India	571	663
Ireland	-	27
Israel	-	589
China (Mainland)	1,001	299
Mexico	324	120
Morocco	87	-
Poland	68	-
Saudi Arabia	426	388
South Africa	145	-
UAE	-	3,165
UK	635	218
US	3623	1,474
Vietnam	-	83

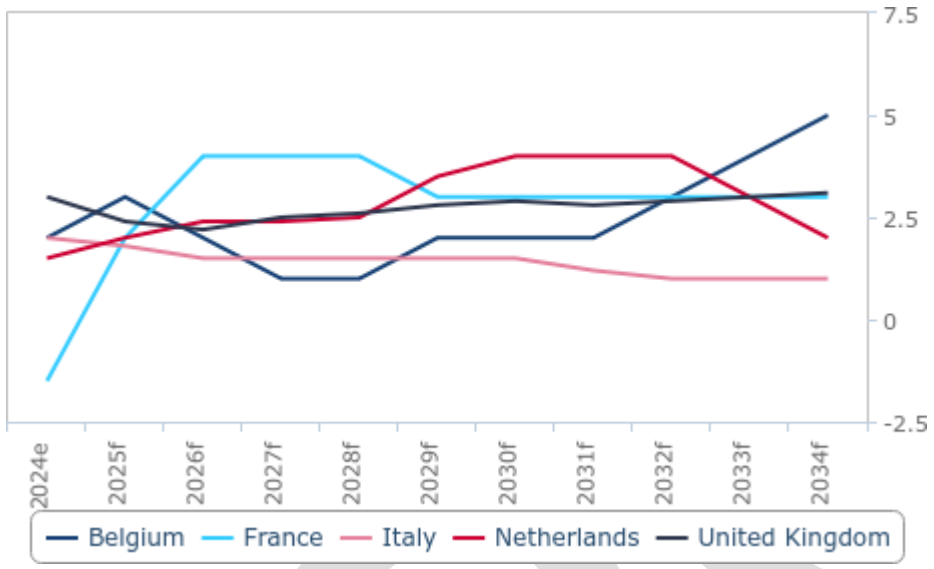
Note: Gross capacity denotes the total capacity of facilities in which EDF has a stake. May include territories, special administrative regions, provinces and autonomous regions.
Source: EDF, BMI

In addition to developing more-mature capacity types, EDF is seeking competitiveness in the development of hydrogen and electricity storage. On hydrogen, EDF launched in 2022 its Hydrogen Plan to achieve market leadership in the technology within Europe, targeting end-users in industrial processes and transport. To this end, the company has entered respective partnerships with cement producer Holcim to produce e-kerosene, LAT Nitrogen to decarbonise ammonia production, and Domo Chemicals to produce green hydrogen. Overall, EDF is primarily seeking to develop hydrogen in France, Italy, the UK and Belgium.

Elsewhere, in the development of electricity storage, EDF is seeking to develop at least 10GW of gross electricity storage assets by 2035. This entails both pumped storage and battery storage, with 1.7GW of capacity currently either in operation or development globally.

Moderate Consumption Growth Expected For Western Europe

Select European Markets - Net Electricity Consumption, % y-o-y (2024-2034)



e/f = BMI estimate/forecast. Source: National sources, BMI

Group Income Statement

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Sales	73,383	75,006	71,203	64,892	68,546	71,347	69,031	84,461	143,476	139,715
Fuel & Energy Purchases	-37,213	-38,775	-36,050	-32,901	-33,056	-35,091	-32,425	-44,299	-121,010	-80,989
Operating Income	7,984	4,280	7,514	5,637	5,454	6,757	3,875	5,225	-19,363	13,174
Taxes	1,839	483	1,388	147	-178	3,064	945	1,400	-3,926	2,470
Net Income	3,701	1,187	2,851	3,173	1,177	5,155	650	5,113	-17,940	10,016
Operating Margin, %	*10.9%*	*5.7%*	*10.6%*	*8.7%*	*8.0%*	*9.5%*	*5.6%*	*6.2%*	*-13.5%*	*9.4%*
Net Margin, %	*5.0%*	*1.6%*	*4.0%*	*4.9%*	*1.7%*	*7.2%*	*0.9%*	*6.1%*	*-12.5%*	*7.2%*

Note: IFRS Results. Values in EURmn unless otherwise stated. Source: EDF

Group Balance Sheet

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Inventories	14,747	14,714	14,101	14,138	14,227	14,049	14,738	16,197	17,661	18,092
Trade Receivables	23,176	22,259	23,296	16,843	15,910	15,606	14,521	22,235	24,844	26,833
Current Financial Assets	20,752	27,019	29,986	24,953	31,143	29,401	23,532	39,937	58,033	39,442
Total Current Assets	72,787	78,196	86,331	67,518	72,785	73,819	68,659	105,098	127,298	105,481
Goodwill	9,694	10,236	8,923	10,036	10,195	10,623	10,265	10,945	9,513	7,895
Property, Plant And Equipment	127,500	130,314	131,253	137,968	142,106	154,372	159,810	167,250	171,908	173,259
Non-Current Financial Assets	33,485	35,238	35,129	36,787	37,104	46,219	47,615	55,609	48,512	48,327
Total Non-Current Assets	195,202	200,745	195,309	204,324	210,384	229,465	237,232	255,868	260,834	259,331
Total Assets	267,989	278,941	281,640	271,842	283,169	303,284	305,891	360,966	388,132	364,812
Total Current Liabilities	57,892	60,239	63,490	46,857	52,815	55,044	52,520	97,139	137,579	93,317
Total Non-Current Liabilities	169,487	178,462	176,788	176,287	177,708	192,450	198,145	201,838	203,941	207,376
Total Equity	40,610	40,240	41,362	48,698	52,646	55,790	55,226	61,989	46,612	64,119
Total Liabilities And Equity	267,989	278,941	281,640	271,842	283,169	303,284	305,891	360,966	388,132	364,812

Note: IFRS Results. Values in EURmn. Source: EDF

Group Cash Flow Statement

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Cash Flow From Operating Activities	10,625	12,730	11,125	11,663	13,364	14,022	12,863	12,648	-7,425	29,808
Cash Flow From Investment Activities	-12,393	-18,839	-16,557	-11,713	-17,165	-15,650	-12,888	-14,577	-25,085	-23,045
Cash Flow From Financing Activities	1,223	5,574	4,138	712	3,530	2,223	2,591	4,973	33,943	-7,258
Cash Flow For The Period	-545	-535	-1,294	662	-271	595	2,566	3,044	1,433	-495
Free Cash Flow	*-3,096*	*-2,059*	*-3,272*	*-2,666*	*-486*	*-2,775*	*-3,144*	*-4,958*	*-24,348*	*10,141*

Note: IFRS Results. Values in EURmn. Source: EDF

Infrastructure Methodology

Connected Thinking

BMI employs a unique methodology known as 'Connected Thinking'. This means that our analysis captures the inter-relatedness of the global economy, and takes into account all of the relevant political, macroeconomic, financial market and industry factors that underpin a forecast and view. We then integrate them so as to explain how they interact and affect each other. Our Connected Thinking approach provides our customers with unique and valuable insight on all relevant macroeconomic, political and industry risk factors that will impact their operations and revenue-generating potential in the industry/industries within which they operate.

We use a transparent forecasting model as a base for our industry forecasts, but rely heavily on our analysts' expert judgement to ensure our forecasts capture all of the insights we derive using our unique Connected Thinking approach. We believe analyst expertise and judgement are the best ways to provide the most accurate, up-to-date and comprehensive insight to our customers.

Infrastructure Methodology

Our data and forecasts capture the entire spectrum of construction activities, including all areas of civil engineering and building construction, as defined under the ISIC Rev.4.

Our data and forecasts for Infrastructure are broken down into: transport (road, rail, ports and airports) and energy & utilities (power plants & transmission grids, water, oil & gas pipelines). Our building data and forecasts are broken down into residential and non-residential construction.

Construction Industry

Construction Industry Value

Our construction data is derived from national accounts from each market's national statistics office (or equivalent) or from international organisations which compile national account data, most notably the UN. Specifically, it measures the gross value added (GVA) of the construction industry over the reported 12-month period in nominal values. GVA (also known as GDP by industry) measures the contribution to overall GDP. The components of value added consist of compensation of employees, taxes on production and imports less subsidies, and gross operating surplus. We source our construction industry value data in nominal local currency terms.

This data is used because it is reported by virtually all markets and can therefore be used for comparative purposes.

Construction Industry Value Real Growth

Our construction industry value forecasts are based on a regression model, using a market's own historical time series and key macroeconomic variables, such as gross fixed capital formation, from BMI Country Risk.

In addition, we will also apply analyst expert judgement to refine and finalise our construction industry value real growth forecast, based on exogenous and endogenous variables or events, not captured by our regression model. Real growth is defined as industry value nominal growth adjusted for industry-specific inflation (construction deflator).

Bearing in mind that other factors need to be taken into consideration, both quantitative and qualitative, our analysts also factor in industry-specific issues in deriving our forecasts:

- Political risk - potential change in leadership, policy continuity
- Regulatory outlook - pricing structures of specific markets, bureaucracy, red tape
- Currency outlook - currency volatility, cost of imports
- Funding availability - fiscal health of the government, openness to private/foreign investment
- BMI Infrastructure Key Projects Data - indication of a market's infrastructure project pipeline by sector
- High Frequency Data – construction permits, starts, confidence etc
- Company developments - reflective of market dynamics and competitive landscap

Construction Industry, % Of GDP/Construction Value (USD)

These are derived indicators, calculated using our Country Risk team's GDP and exchange rate forecasts.

Construction Output

These figures refer to the gross output of the construction industry. Gross output measures the total sales or receipts of the industry, including sales to final users in the economy as well as sales to other industries. Gross output consists of construction industry value and intermediate consumption.

As in the case of construction industry value data, our construction output data is derived from national accounts from each market's national statistics office (or equivalent) or from international organisations which compile national account data, most notably the UN.

Forecasts are the result of a regression model, using a market's own historical time series as well as our construction industry value forecasts.

Construction Intermediate Consumption

These figures refer to the intermediate consumption of the construction industry. Intermediate consumption measures the goods and services employed in the production process of other goods and services and not for final consumption. Intermediate consumption is equivalent to the difference between gross output and GVA.

Our Construction Intermediate Consumption figures are a function of construction output minus construction industry value.

Cement Data

We forecast Portland cement production, consumption and net exports, in millions of tonnes.

Our historical national production data is sourced from the United States Geological Survey (USGS), while trade data is sourced from TradeMap by the International Trade Centre. By calculating production and net exports, we are able to determine historical consumption levels.

These consumption levels are then forecast over our 10-year forecast period using our construction growth forecasts, reflecting the changing demand picture for cement from the industry.

Construction Sector Employment

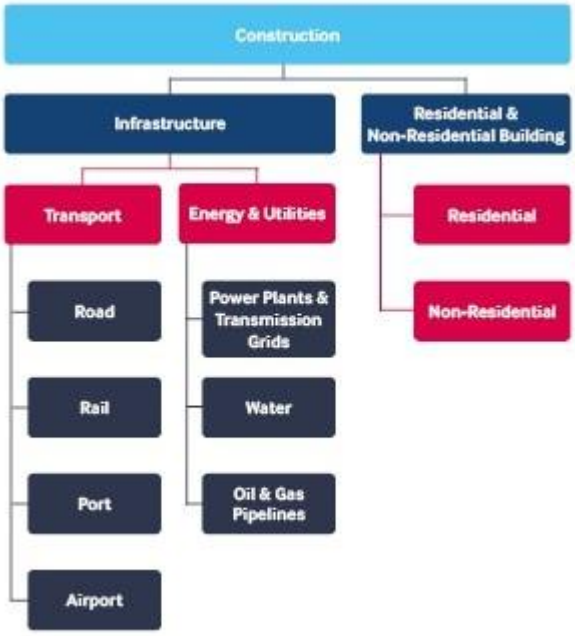
Total Construction Employment

This data is sourced from either the national statistics office or the International Labor Organization. It includes all those employed within the sector.

Our total construction employment forecasts are based on a regression model, using a market's own historical time series and key macroeconomic variables from our Country Risk service.

Infrastructure Data Sub-Sectors

Infrastructure Data Sub-Sectors



Source: BMI

For select markets, in addition to our construction industry value figures, we also provide industry value (gross value added) figures for subsectors of the construction industry.

We use a combination of historic data as reported by central banks, national statistics agencies and other official data sources, and leverage our analysts' knowledge of market and subsector dynamics and project information included in our proprietary BMI Infrastructure Key Projects Data, a comprehensive catalogue of the major power, transport, utilities, residential and non-residential projects in each market.

Given a variation in construction sub-sector classifications under various national accounts systems currently in use, we segment official construction sub-sector data into consistent and proprietary categories to compare industry value across sub-sectors. First, our construction industry data is broken down into infrastructure construction on one hand and residential and non-residential

building construction on the other. Infrastructure construction is then broken down where possible into transport infrastructure and energy and utilities infrastructure, which are then further broken down where possible into the categories illustrated in the figure above. Residential and non-residential building construction in turn is broken down where possible into residential building and non-residential building.

Our infrastructure sub-sectors industry value forecasts are based on a regression model, using a market's own historical time series and key macroeconomic variables, such as fixed capital formation, from our Country Risk service.

In addition, we also apply analyst expert judgement to refine and finalise industry value real growth forecasts, based on exogenous and endogenous variables or events, not captured by our regression model.

The residential and non-residential industry values are a function of construction minus infrastructure industry value. We further rely on national sources and our BMI Infrastructure Key Projects Data to further estimate the separation between the two areas of building when historic data is not available.

Infrastructure Risk/Reward Index

Our Infrastructure Risk/Reward Index (RRI) quantifies and ranks a market's attractiveness within the context of the Infrastructure industry, based on the balance between the **Risks** and **Rewards** of entering and operating in different markets.

We combine industry-specific characteristics with broader economic, political and operational market characteristics. We weight these inputs in terms of their importance to investor decision-making in a given industry. The result is a nuanced and accurate reflection of the realities facing investors in terms of first the balance between opportunities and risk and second between industry-specific and broader market traits. This enables users of the index to assess a market's attractiveness in a regional and global context.

The index uses a combination of our proprietary forecasts and analyst assessment of the regulatory climate. As regulations evolve and forecasts change, so the index scores change providing a highly dynamic and forward-looking result.

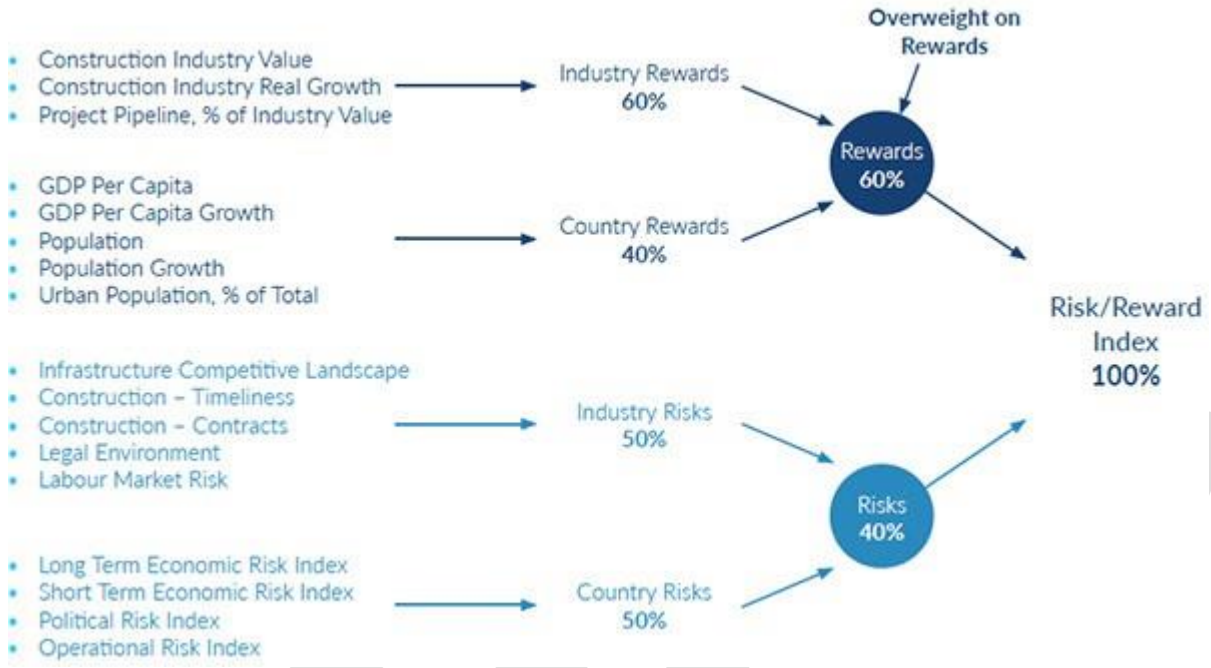
The Infrastructure Risk/Reward Index universe comprises **104 markets**.

Benefits Of Using Our Infrastructure RRI

- **Global Rankings:** One global table, ranking all the markets in our universe for Infrastructure from most attractive (closest to zero) to most risk (closest to 100).
- **Accessibility:** Easily accessible, top-down view of the global, regional or sub-regional Risk/Reward profile.
- **Comparability:** Identical methodology across 104 markets for Infrastructure allows users to build lists of markets they wish to compare, beyond the confines of a global or regional grouping.
- **Scoring:** Scores out of 100 with a wide distribution, provide nuanced investment comparisons. The higher the score, the less favourable the market profile.
- **Quantifiable:** Quantifies the Rewards and Risks of doing business in the infrastructure industry in different markets around the world and helps identify specific flashpoints in the overall business environment.
- **Comprehensive:** Comprehensive set of indicators, assessing industry-specific risks and rewards alongside political, economic and operating risks.
- **Entry Point:** A starting point to assess the outlook for the infrastructure industry, from which users can dive into more granular forecasts and analysis to gain a deeper understanding of the market.
- **Balanced:** Multi-indicator structure prevents outliers and extremes from distorting final scores and rankings.
- **Methodology:** The index is a combination of proprietary BMI forecasts, analyst insights and globally acceptable benchmark indicators.

Weightings Of Categories And Indicators

Infrastructure Risk/Reward Index



Source: BMI

The RRI matrix divides into two distinct categories:

Rewards: Evaluation of an industry's size and growth potential (**Industry Rewards**), and macro characteristics that directly impact the size of business opportunities in a specific industry (**Country Rewards**).

Risks: Evaluation of micro, industry-specific characteristics, crucial for an industry to develop to its potential (**Industry Risks**) and a quantifiable assessment of the political, economic and operational profile (**Country Risks**).

Assessing Our Weightings

Our matrix is deliberately overweight on **Rewards** (60% of the final RRI score for a market) and within that, the **Industry Rewards** segment (60% of final Rewards score). This is to reflect the fact that when it comes to long-term investment potential, industry size and growth potential carry the most weight in indicating opportunities, with other structural factors (demographic, labour statistics and infrastructure availability) weighing in, but to a slightly lesser extent. In addition, our focus and expertise in emerging and frontier markets has dictated this bias towards industry size and growth to ensure we are able to identify opportunities in markets where regulatory frameworks are not as developed and industry sizes not as big as in developed markets, but where we know there is a strong desire to invest.

Infrastructure RRI Indicators - Explanation And Sources

	Source	Rationale
Rewards		
Industry Rewards		
Construction Industry Value	BMI Forecast	Size of the construction industry indicates potential for opportunities and scale of operations. USDbn, Five Year Average Forecast.
Construction Industry Value	BMI Forecast	Growth of the construction industry indicates potential for growth in opportunities. Real Growth, % Change y-o-y, Five Year Average Forecast.
Project Pipeline, % of Industry Value	BMI Key Projects Data/BMI Forecast	Size of the project pipeline in the pre- and under-construction phase relative to the construction industry size, indicates the potential for project opportunities, progression of projects through the pipeline and growth of pipeline.
Country Rewards		
GDP Per Capita	BMI Forecast	The wealth of the population indicates demand for infrastructure. USD, Five Year Average Forecast
GDP Per Capita Growth	BMI Forecast	As a population gets richer, we would expect to see greater demand for infrastructure, especially transport. Local Currency, % Change y-o-y, Five Year Average Forecast. Except: Zimbabwe & Venezuela where USD is used.
Population	BMI Forecast	Larger population creates greater demand for infrastructure. Five Year Average Forecast
Population Growth	BMI Forecast	Growth of population necessitates increased infrastructure stock. % Change y-o-y, Five Year Forecast.
Urban Population % Of Total	BMI Forecast	High and growing concentration of population in urban areas indicates greater pressure on infrastructure assets. Five Year Average Forecast.
Risks		
Industry Risks		
Infrastructure Competitive Landscape	BMI Subjective Indicator	Assesses the openness of the competitive landscape. Considers the sophistication and saturation of the existing market, the ability to compete fairly in tenders and barriers to international companies entering the market.
Construction - Timeliness	BMI Project Risk Index	Measures the risk of delays to project development. Based on ability to secure permits and the potential for protracted bureaucracy to delay or increase the cost of operations.
Construction - Contracts	BMI Project Risk Index	Measures the risk of contracting issues. Assesses both the efficiency of contract resolution and the sophistication of local regulations.
Legal Environment	BMI Operational Risk Index	Measures risk stemming from lack of transparency and legal protection. Assesses the strength of rule of law, transparency and investor protection.
Labour Market Risk	BMI Operational Risk Index	Measures the risk to project development based on the labour market. Assesses the size, education levels and cost of employment.
Country Risks		
Long-Term Economic Risk Index	BMI Country Risk Index	Takes into account the structural characteristics of economic growth, the labour market, price stability, exchange rate stability and the sustainability of the balance of payments, as well as fiscal and external debt outlooks for the coming decade.
Short-Term Economic Risk Index	BMI Country Risk Index	Seeks to define current vulnerabilities and assess real GDP growth,

	Source	Rationale
		inflation, unemployment, exchange rate fluctuation, balance of payments dynamics, as well as fiscal and external debt credentials over the coming two years.
Political Risk Index	BMI Country Risk Index	The Political Risk Index is a score made up of the mean average across three distinct pillars: Governance Risk, Society Risk and Security Risk. These are aggregated into an overall assessment of Political Risk.
Operational Risk Index	BMI Operational Risk Index	Focuses on existing conditions relating to four main risk areas: Labour Market, Trade & Investment, Logistics, and Crime & Security.

Source: BMI

Disclaimer: This information is sourced from BMI Country Risk & Industry Research, a product of Fitch Solutions Group Ltd, UK